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World Business Newspaper http://www.FT.com MONDAY JULY 14 1997

● The tenth part of our 12-part series, FT Mastering Finance, appears today. Topics include: Financial strategy, the future of banking and the Metallgesellschaft case.

US and UK take the lion's share of investment

The US and Britain received more than half the inward direct investment reported by members of the Organisation for Economic Cooperation and Development last year, when both countries recorded big increases in inflows. Foreign direct investment in Austria and Ireland was also sharply higher than in 1995. But the OECD said inflows into most other member countries were lower, with particularly big falls in Australia, Canada, Denmark, Germany, the Netherlands and Sweden. Separately, the United Nations Conference on Trade and Development said worldwide foreign direct investment inflows rose 10 per cent to $349bn last year. Page 16; Investment into Asia up sharply, Page 4

Heart from the lab: Scientists believe they will soon be able to grow a complete human heart in the laboratory from a few cells. Gail Naughton, president of US biotech company Advanced Tissue Sciences, says it is only a matter of time. Her company has already grown a human finger joint, heart valves, heart muscles and blood vessels. Page 16

Internet phone calls plan: Deutsche Telekom is drawing up plans to become the first large international telecommunications group to offer cut-price overseas telephone calls via the internet. The group is expected to announce plans for a pilot project allowing selected customers to use the internet for calls costing a fifth of the normal charge. Page 17

Villeneuve wins British Grand Prix

Canadian Jacques Villeneuve, left, got the Williams bandwagon back on the rails with a victory in the British Grand Prix then insisted: "We were due some good luck." Michael Schumacher's Ferrari let him down, forcing him to retire on lap 39 when poised for a third successive win.

Tokyo's financial services offer: Japan will attempt to inject fresh impetus into the World Trade Organisation's talks on liberalising financial services with an offer to permanently lift all restraints on foreign companies operating in its financial services market. Page 3

UK backs Fischler: UK agriculture minister Jack Cunningham has written a letter of support to EU agriculture commissioner Franz Fischler taking the Commission's side in what is expected to be a fierce debate on the future of EU agriculture policy. Page 6

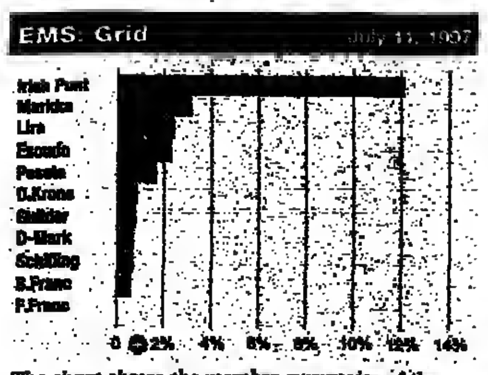
Russians seek oil role: Talks aimed at breaking a deadlock in negotiations to launch one of the biggest international oil projects conceived for the Caspian Sea region open today amid apparent wrangling by Russian companies to secure a position in the project. Page 4

Ankara rejects fundamentalism: Turkey's new government, fresh from winning a confidence vote, has promised unwavering adherence to the secularist principles of Kemal Atatürk, who founded modern Turkey in 1923. Page 4

ICI set for DuPont deal: Britain's Imperial Chemical Industries is poised to announce the $3.4bn sale of most of its industrial chemicals operations to US chemicals company DuPont. Page 16, with Lex

European monetary system: The French franc remained rooted to the bottom of the EMS grid at the end of last week as it and the D-Mark remained weak against the higher-yielding member currencies. The Irish punt, buoyed by the rise in sterling, was 12 per cent higher than the French franc. Currencies, Page 28

EMS: Grid July 11, 1997



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

EU alert over new members

Brussels urges shake-up before central and east European states are admitted

By Lionel Barber in Brussels

The European Commission will issue a blunt warning this week that the EU should not admit countries from central and eastern Europe without more majority voting and a shake-up of institutions.

Brussels will call for an inter-governmental conference on the EU's future to occur "as soon as possible after 2000" – an implicit criticism of last month's inconclusive EU summit in Amsterdam.

The call for another IGC is one of the chief recommendations in a long-awaited blueprint on enlargement that Mr Jacques Santer, president of the Commission, will present to the European Parliament in Strasbourg on Wednesday.

The document – known as Agenda 2000 – calls for far-reaching reforms of the Common Agricultural Policy and the costly regional aid budget. The proposals are likely to provoke opposition from the powerful farm lobbies in France and Bavaria, and among net beneficiary countries such as Greece, Spain and Portugal.

Agenda 2000 also identifies obstacles to the EU's plans to admit former Soviet bloc countries – as yet none of the 10 applicants meet the economic criteria.

Countries considered front-runners for EU membership, notably Poland, face criticism for foot-dragging on liberalisation in banking and financial services, privatisation and trade protection.

After an intense debate, the Commission has judged five countries ready to open accession negotiations with the EU next year: the Czech Republic, Estonia, Hungary, Poland and Slovenia. They will join Cyprus, which has already secured a favourable opinion.

The internal Commission debate – which balanced geopolitical preferences against objective economic criteria – gives a foretaste of divisions over enlargement among EU governments, which have the last word on Agenda 2000's recommendations.

Nato's decision last week to restrict the initial wave of new alliance members to the Czech Republic, Hungary and Poland may increase pressure to widen the admissions of EU membership to include some or all of the disappointed countries.

Those judged not ready for accession negotiations are Bulgaria, Romania, Latvia, Lithuania and Slovakia, the last being the sole country which has not met the membership's political criteria.

The Commission's blueprint proposes maintaining the

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Cyprus peace plan, Page 2
EU enlargement war, Page 2

Killing of councillor sparks protests against Basque separatists

Outrage in Spain after Eta murder

By Tom Burns in Madrid

Eta, the Basque separatist organisation, provoked outrage throughout Spain over the weekend when its members brutally murdered a town councillor they had kidnapped.

Mr Miguel Angel Blanco, 29, was left to die on a remote mountain track. His hands were tied behind his back and he had been shot twice in the head.

Commentators believe the widespread revulsion at the killing may signal a watershed in the violent 30-year history of Eta.

Mr Blanco was murdered after the deadline expired on an ultimatum by Eta that all jailed terrorists should be regrouped in prisons in or near the Basque Country.

His death in a San Sebastian hospital early yesterday after 12 hours in a coma stunned Spain and sparked attacks in the Basque Country on offices of Herri Batasuna, Eta's political wing.

Pamplona's bull-running festival was suspended for 24 hours yesterday after 18 people were injured in unprecedented clashes between pro- and anti-separatists.

In Ermua, deep in the heart of the Basque Country, where Mr Blanco served as a town councillor representing the centre-right Madrid-based Popular party, demonstrators attempted to set fire to the Herri Batasuna headquarters.

"Eta has committed political suicide," said Mr Iñaki Anasagasti, the spokesman in the Madrid parliament for the moderate Basque Nationalist Party, PNV.

Temperatures were already running high before the murder. Hours before the deadline expired tens of thousands marched through Bilbao in a demonstration to demand Mr Blanco's release, headed by Mr José María Aznar, the prime minister, and moderate Basque politicians.

In the Basque Country and throughout Spain, thousands more staged silent vigils outside town halls.

The murder of Mr Blanco appeared to have divided the rival Basque parties – the PNV, which leads the Basque government, and the Herri Batasuna coalition. Both want a national state for the 2.5m Basques who claim a different heritage from Spain.

Herri Batasuna returned two MPs to the Madrid parliament last year, backed by 180,000 votes in the Basque region, compared with the PNV's five seats and 318,000 votes.

The PNV, which has been accused by Madrid of ambiguity in the past over its attitude to Eta, closed ranks behind the PP and the Socialists.

In a hard-hitting statement yesterday it singled out Herri Batasuna as the "accomplice" of Mr Blanco's murder. The PNV, which had previously backed a Herri Batasuna campaign to have some 500 jailed Eta members regrouped, said it would sever joint action.

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A riot policeman grabs a Basque radical during clashes in Pamplona yesterday Reuter

China in move for high-tech weapons supplies

By James Harding in Shanghai

China plans to open its defence equipment sector to foreign suppliers next year to help the vast but primitive People's Liberation Army upgrade its electronic warfare capability.

Beijing's invitation to international investors will increase pressure on the US and Europe to lift their embargoes on arms sales to China, imposed following the Tiananmen Square massacre of pro-democracy protesters in 1989.

The liberalisation also underlines the military leadership's concern that China's 3m-strong forces lack the equipment and expertise necessary to cope in a conflict using modern, high-technology weapons.

Beijing is inviting foreign defence electronics companies to display their wares at a trade fair, the first of its kind, to be held next May.

The Chinese market for electronic technology and equipment is expected to reach Yn1,000bn ($121bn) by 2000, with the bulk of the demand coming from China's modernising military services.

Mr Lin Huaqing, vice-chairman of the Central Military Commission, China's top military body, said in a report yesterday that the opening of the defence sector was aimed at "strengthening international military-related electronic technology exchanges and upgrading China's military electronic equipment".

Since the Gulf war in 1991, China's military leaders have been aware that the PLA can no longer rely on strength in numbers and needs to re-equip itself for modern warfare.

One Beijing military attaché reported recently that the PLA, lagging behind modern military standards, would need more than 30 years to catch up with western forces.

Officials quoted in yesterday's report in the China Business Weekly, the official government newspaper, said: "Opening the market to over-

Continued on Page 16

BT may call for two top MCI managers to resign

By Alan Cane

British Telecommunications is expected to demand the resignation of two senior managers of its US partner MCI, following MCI's surprise revelations last week that its business prospects had been derailed.

BT said this weekend it would also examine MCI's finances and its business plans before reaching a conclusion about the $20bn merger planned by the two companies. Most analysts believe both sides have too much to lose to abandon the deal.

BT is expected to call for the resignation of Mr Doug Maine, MCI's finance director, and Mr Tim Price, in charge of MCI's telephone business. Mr Maine was set to become finance director of the merged company, Concert plc, and Mr Price was to take charge of all MCI's North American activities in Concert.

MCI said reports of BT demands were "speculation".

BT executives are believed to hold the two largely responsible for the additional cost of MCI's efforts to break into the $100bn-a-year local telephone market in the US. MCI said last week it could lose $800m on the higher-than-expected costs of these efforts.

Sir Peter Bonfield, BT chief executive, has made clear his anger at his US partner for not telling him about the deteriorating state of its finances.

US sources say MCI is making light of the potential extra costs. It says its results to date are in line with expectations. The extra cost is involved only in redoubling its efforts to break into local markets.

While there is no doubt that BT holds MCI wholly responsible for the fiasco, at present it can do little other than make its attitude plain to MCI.

Renegotiation of the terms of the merger to take account of the decline in MCI's value remains a possibility. A clause in the merger agreement permits renegotiation if either side suffers adverse trading conditions.

Sir Iain Vallance, BT chairman, will be raising the future of the two executives with Mr Bert Roberts, MCI chief executive and Mr Gerald Taylor, MCI chief operating officer, this week when the US executives attend BT's annual general meeting to be held in Edinburgh on Wednesday. Both are non-executive directors of BT.

The affair is a blow for one of the most touted features of the merger, which was to combine two very different corporate cultures. Executives were chosen to fill the top positions from each organisation in an equitable manner. BT seems to have lost confidence in some of the top people in its proposed partner and will want its own staff to fill those positions if the merger is to go ahead.

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EU talks may clash with final round of negotiations on island stand-off

UN sketches Cyprus peace plan

By Bruce Clark in Poughkeepsie, New York

The European Union could find itself opening membership talks with Cyprus at the very moment next spring when efforts to end the island's Greek-Turkish stand-off are entering their final, decisive stage, according to a plan sketched out by the UN.

With Cyprus emerging fast as the trickiest problem facing the EU's enlargement programme, a rough timetable for a make-or-break attempt to reunite the island has been laid out during informal but high-level talks in rural New York state.

The UN-sponsored meeting brought together President Glafcos Clerides, who speaks for the Greek Cypriot majority, and Mr Rauf Denktash, the Turkish Cypriot leader. Although the two veteran politicians have known each other since their youth, it was their first face-to-face meeting for over three years.

Cypriot officials, while very cautious in their assessment of the talks, said the rural setting had made it possible for the leaders to go for "walks in the woods" and test each other's thinking.

Rauf Denktash and Glafcos Clerides: first face-to-face-meeting for over three years

Mr Diego Cordovez, the UN mediator, presented them with a draft agreement on principles for a federal Cyprus, made up of Greek and Turkish zones with autonomy but barred from annexation by their respective motherlands.

The document, leaked to a Greek-American daily, upheld the "political equality" of the two communities, a long-standing Turkish demand, with the rider that this did not mean numerically equal representation.

It assured the Greek side that a reunited Cyprus would have a "single sovereignty" but drew strong Greek complaints by saying that sovereignty "emanates" from both communities.

If the UN plan went ahead, the two Cypriot leaders would formally commit themselves to a settlement – ending the partition of the island that followed the Greek coup and Turkish invasion of 1974 – after a further meeting in Geneva next month.

Late this year, each community would formulate its own suggestion for a federal constitution, while the UN would unveil its own proposals for the most sensitive issues, such as territory and security.

This would clear the way for intensive negotiations to start in March, after the Greek-Cypriot elections and exactly at the moment when the EU has promised to start accession talks with Cyprus, with or without a peace agreement.

Because Athens has successfully insisted that talks between Cyprus and Brussels should not be subject to a settlement, the EU could have little choice but to start membership negotiations with the Greek-Cypriot government alone.

Mr Denktash has said this course of action could lead to renewed conflict, and last week he strongly criticised the EU for recommitting itself to accession talks next March.

But Mr Richard Holbrooke, the US mediator who will take an increasingly active role in the Cyprus talks, has argued that the prospect of closer relations with the EU can be used as an incentive to motivate both Cyprus and Turkey.

EU braced for enlargement war

Brussels blueprint will make the flak fly. **Lionel Barber** reports from the front

The phony war over the European Union's plans to admit new members from the former communist countries of central and eastern Europe is about to end.

On Wednesday the European Commission will unveil its blueprint for managing the historic process of enlargement under the code name Agenda 2000.

The Commission blueprint offers comprehensive assessments of each of the 10 applicant countries which want to join the 15-member EU. But it also offers a foretaste of problems which lie ahead.

As the authors note, enlargement involves increasing the EU's total population by more than a third, from 370m to almost 500m people, but only increasing the total gross domestic product of the union by around 5 per cent. Thus enlargement seems certain to pit rich versus poor countries, small versus large, north versus south.

The commission hopes that, although EU governments will have the last word on the terms of enlargement, Agenda 2000 will be pivotal in shaping the final agreement. The blueprint, which runs into more than 1,000 pages, falls into five broad categories:

■ Short-listing new members. After a bruising internal debate, the commission decided last week to clearly identify which of the 10 applicant countries are ready to open accession negotiations next year.

Enlargement seems certain to pit rich versus poor countries, small versus large, north versus south

The five favoured candidates are Estonia, the Czech Republic, Hungary, Poland and Slovenia, plus Cyprus; but Brussels would like Bulgaria, Romania, Latvia, Lithuania, and Slovakia to have their applications reviewed each year along with special financial aid to help them qualify for membership.

■ Strengthening institutions. The commission is calling for a new EU intergovernmental conference to agree on a substantial increase in majority voting and a weakening of the rules on unanimity to avoid paralysis in decision-making in a union of 20-plus countries.

"Any delay can only compromise an effective enlargement of the union," the document warns. The commission is insisting on a new IGC even if the first wave of new members is restricted to three.

■ Common agricultural policy. Agenda 2000 proposes reinforcing the 1992 McSharry reforms which have led to a movement towards world market prices and direct income payments to farmers. The Commission proposes sharp cuts in intervention to support prices in the beef, cereal and dairy sectors. However the commission package would involve CAP spending increasing by up to Ecu4bn ($4.5bn) a year.

■ Regional aid. Agenda 2000 proposes a radical reform of the "structural fund" budget, designed to help poor areas within countries. Mrs Monika Wulf-Mathies, the commissioner responsible, would like to shrink the population of the EU eligible for special assistance from around 50 per cent to between 35 and 40 per cent. The Commission also intends to cut programmes funnelling aid to poorer regions, and target unemployment.

The central reform will fall in the category called Objective One which channels money to areas with a GDP of less than 75 per cent of the Union average. Most applicant countries will need at least 15 years to reach this level.

The Commission makes clear it would like more efficient use of the "cohesion funds", the special assistance agreed in 1992 for the poorest EU countries: Ireland, Greece, Spain and Portugal. Ireland has rapidly improved its GDP per capita, so it is likely to find its share of the cohesion funds tapering away.

■ Future financing. Agenda 2000 says the first wave of new members can be accommodated without increasing the present 1.27 per cent of GNP ceiling due to take effect in 1999 but more fundamental reform would be required if the EU were to go above that.

When the phony war ends the battle lines will be seen to run across the entire union. Germany, though nominally in favour of eastward enlargement, opposes increases in EU funding and is hostage to powerful farming interests in Bavaria. Britain also supports enlargement for political reasons but is opposed to increasing the EU budget.

Spain Italy, Greece and Portugal are determined to keep their share of EU regional aid while smaller countries, such as Belgium and Luxembourg, are worried expanding membership without deepening political integration would undermine their rights.

France has accepted that enlargement is historically inevitable, but will defend its farmers against radical CAP reform.

Jospin sets puzzle on privatisation

A minor industry has sprung up in Paris of rune-readers, trying to analyse the delphic statements on privatisation by Mr Lionel Jospin, the prime minister.

Given the tug-of-war between market forces and corporate logic favouring state asset sales, and the objections of Mr Jospin's leftwing allies to such sales, it is hardly surprising that Mr Jospin does not want to take a clear position yet.

On Friday night, he cancelled the total privatisation of Thomson-CSF launched by Mr Alain Juppé, his predecessor – but in terms which the rune-readers widely interpret as not entirely ruling out transferring control of the defence and electronics group to the private sector.

This would be in line with other signs of a partial retreat by the Socialists from their election campaign attacks on Mr Juppé's "frantic privatisations" and "total absence of long-term industrial strategy". Once prime minister, Mr Jospin started talking of a distinction between "the public sector" and "public services", with the implication that only the latter were certain to escape privatisation. But he now appears ready to consider a partial flotation of one public service, France Telecom.

Despite the government's pledge to come up with "an industrial solution" to make Thomson-CSF part of "a French professional and defence electronics grouping [with] a decisive public shareholding", analysts believe the government's stake in the company is likely to fall from the current 58 per cent, possibly to below the simple majority threshold of 50 per cent.

They believe that, if the government intended to keep straight majority control by the state, it would have said so, instead of using the ambiguous term "decisive" and talking of "public shareholding", which could include entry of other state-owned companies such as Aerospatiale.

The government is also aware that maintaining the state share above 58 per cent may not be easy. Thomson-CSF, which made a FFr745m ($126.3m) net profit last year and has little debt, does not need a capital increase now. But if and when it does, the cash-strapped French state would be hard pressed to come up with extra money to match private institutions and investors who hold the other 42 per cent of the company.

If the government were to let its share drop below 50 per cent, it could always maintain a veto over important strategic decisions by keeping a special or golden share in the company.

The previous abortive rounds of bidding for Thomson-CSF pitted the Lagardère missiles-to-magazines conglomerate against the Alcatel engineering and telecommunications group.

According to the French newspaper Le Figaro, the government may be planning an operation that would let Alcatel in and keep Lagardère out.

Splitting control of Thomson-CSF between the public sector and private companies, the scheme, as reported by Le Figaro, would allow the state to hold a 40 per cent stake jointly with Aerospatiale aerospace group. Alcatel and Dassault would come in to take another 40 per cent, buying some of their shares from the public, whose stake would shrink to 20 per cent.

Government officials however describe the report as speculative.

In contrast to Thomson and France Telecom, the future of Air France is complicated by the fact that Mr Jean-Claude Gayssot, the minister in charge of transport, is one of the three Communists in the Jospin government. He recently declared that privatisation of the national airline was "not on the agenda".

However, Mr Jospin's statement that "the state's vocation is not to support distressed financial institutions continuously" was interpreted as a hint that the sale of Crédit Lyonnais was envisaged. By the same token, the government has no ideological objections to selling Gan-CIC, the banking and insurance group.

Samer Iskandar
David Buchan

Brussels wants to extend limit on hours

By Neil Buckley in Brussels

The European Commission wants to extend controversial limits on working hours to millions of transport and offshore workers, junior doctors and others.

Brussels says exemptions from the law, designed to respect traditionally irregular work patterns in certain industries, are too wide. Some 375,000 airline employees, for example, are excluded, although 80 per cent are ground staff with regular hours. A total of some 5.6m workers are excluded.

A white paper this week will call for only "mobile" workers, such as offshore oilmen or long-distance transport workers, to be exempted from the 48-hour week maximum. Even "mobile" workers would be covered by other provisions of the directive – including maximum annual working hours, rests of 11 hours plus at least one rest day a week and four weeks' paid holiday – from which they are now exempt.

A quarter of a million trainee doctors could also see their hours limited, with EU states asked to re-examine the length of "on-call" periods.

That could provoke concerns in the UK, where National Health Service administrators have warned that any reduction in junior doctors' punishing schedules could lead to staff shortages.

The 1993 working time directive provoked one of the most bitter rows between the UK's former Conservative government, which unsuccessfully challenged it in the European Court, and its EU partners.

Publication of the white paper by Brussels was postponed from this spring, with senior Tories alleging it was deliberately delayed to avoid embarrassing Labour before the general election.

The new Labour government has said it will implement the directive, in spite of employers' warnings that it could cost jobs. But Mr Tony Blair, the prime minister, has said there is "no appetite among other countries in Europe for vast new amounts of labour market regulation".

The government will wait to see the terms of the proposed extension, but is likely to oppose anything that it considers might impede competitiveness.

Other EU members took a more relaxed approach to the directive – mainly because all, with the exception of Denmark, already had legislation limiting overtime. However, any extension is likely to be opposed by Unice, the European employers' federation, which has already described the 48-hour directive as a "relic of the past".

The white paper due to be adopted by the Commission tomorrow outlines several options, including new sector-specific rules to improve worker protection. But it makes clear Brussels favours the all-encompassing approach.

The recommendations are less specific for trainee doctors, implying they would be subject to the 48-hour maximum, but could be required to be on-call for additional periods, according to rules drawn up at national level.

Employers and unions have until October 31 to submit responses before the paper is transformed into legislative proposals, probably early next year.

EU hopefuls want Emu start on time

By Anthony Robinson in Salzburg

Central bankers and politicians from the five central European states selected for the first round of EU enlargement have pledged to persevere with the tough fiscal and monetary policies needed to qualify both for EU entry and for later participation in European economic and monetary union (Emu).

"We would have to pursue such disciplined policies for our own good, irrespective of EU or Emu membership. Now our greatest concern is to ensure that Emu starts as planned, because any delay is likely to be for a decade rather a few months and this would impact on our EU entry negotiations," warned Mr Gyorgy Suranyi, the president of the Hungarian National Bank.

Mr Suranyi was taking part with other central bankers in a panel discussion on European enlargement at an investment conference organised by the World Economic Forum.

"The biggest problem for all the applicant members will be to achieve the EU inflation rate average of around 2-3 per cent annually. Hungary, where inflation has dropped from 30 to 17 per cent over the last two years, and the other first round applicants are already close to achieving the other Maastricht convergence criteria," he added.

Poland, whose 39m population is much bigger than that of four other EU frontrunners combined – the Czech Republic, Hungary, Slovenia and Estonia – also has the fastest growing economy.

Growth in gross domestic product is expected to rise a further 5–6 per cent this year, partly fuelled by a 20 per cent credit growth in real terms over the first months of this year, according to Ms Hanna Gronkiewicz Walz, governor of the National Bank of Poland.

Determination to complete EU entry negotiations as soon as possible is a strong incentive to maintain tough fiscal and monetary policies. This means higher interest rates and a cut in the budget deficit to under 2 per cent in 1998 and a budget surplus the next year to keep inflation steadily falling and prevent the balance of payments deficit rising to "unsafe levels".

Poland and Hungary, together with Slovenia and Estonia, are reaping the benefit of earlier structural reforms, but the Czech Republic "is paying the penalty for neglecting economic fundamentals and going for growth at the expense of balanced development and micro-economic and institutional reforms", according to Mr Jozef Tosovsky, governor of the Czech National Bank. Reforms must now be intensified, he said.

The frontrunners have much in common. All carry out 60-70 per cent of their trade with the EU, of which more than half is with Germany. All see EU membership as a way of diluting the inevitable increase of German political and economic influence over the region.

But they are worried that an ill-prepared, partial start to Emu, specially if it were limited to Germany and the "Mark-zone" countries of Benelux and Austria, would unintentionally lead to German hegemony over the former communist states.

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INTERNATIONAL NEWS DIGEST

Israel threat on Hebron riots

Israel yesterday threatened to crack down with tougher measures on Palestinian protesters in the West Bank town of Hebron, as fierce clashes between Israeli troops and Palestinians continued.

Mr Benjamin Netanyahu, Israel's prime minister, said the Palestinians would pay "a very heavy price" if the Palestinian Authority did not quell the riots.

Palestinians hurled stones and petrol bombs at Israeli troops stationed on the border between the Israeli and Palestinian controlled parts of Hebron. Israeli soldiers fired rubber bullets and injured 16 Palestinians. Among the injured were four Palestinians journalists working for foreign news agencies. *Avi Machlis, Jerusalem*

Telecom offering delayed

The Israeli government's offering of its shares in Bezeq Israel Telecom will not take place next month as planned, an economic official said yesterday.

Mr Moshe Leon, Mr Benjamin Netanyahu's chief economic adviser, did not know when the offering of shares from the government's majority stake would take place, but company sources said it was expected in November.

Instead, the government was reported to be hoping to complete a block trade to institutional investors in August for an as-yet-undetermined percentage of the telecommunications company.

The deadline for the public offering, which is to be for up to 10 per cent of equity, was due to be filed on July 10 and completed by August 31.

■ The Palestine securities exchange published its first index yesterday, five months after its inauguration.

The PSE, based in the West Bank town of Nablus, said its "Jerusalem Index" inched upwards from a base value of 100 to 100.06. Volume totalled JD377,686 ($532,700) as 240,136 shares in 10 companies traded hands. *Reuter, Jerusalem*

French go-ahead for internet

France's two leading cable operators were swift to announce plans to offer internet access via their cable television network after receiving a green light last Friday from the telecoms regulator.

"We are now able to offer internet services in the next few months," said Lyonnaise Câble, the country's largest cable operator, which is part of the Suez Lyonnaise des Eaux conglomerate.

CGV, the cable operator owned by Compagnie Générale des Eaux, said the regulator's decision "paved the way for wide public access to the internet".

The regulator, Autorité de Régulation des Télécommunications (ART), said existing agreements between France Telecom, the state-owned telephone company, and the two cable operators would have to be "modified to allow access to the internet through the cable networks". *Samer Iskandar, Paris*

Russia and US in Baltic clash

Just a few days after Nato's historic decision to invite three former Warsaw pact countries to join the western military alliance, Russia and the US clashed over whether the Baltic states should be considered for membership.

Mr Boris Yeltsin, the Russian president who spearheaded the Kremlin's grudging decision to accept Nato expansion into eastern Europe, said Russia would be less compromising over inclusion of the three Baltic countries.

"We will be categorically against this," Mr Yeltsin said, speaking during a meeting with the Finnish president at a state holiday home in northern Russia.

But Mrs Madeleine Albright, the US secretary of state who played a key role in smoothing over Russian objections to the first stage of Nato expansion, insisted that Nato would keep its doors open for the Baltic states. *Chrystia Freeland, Moscow*

Kabila pressed on rights

The European Commissioner for Humanitarian Affairs yesterday called for President Laurent Kabila to be pressed to co-operate fully with investigations into human rights abuses in former Zaire.

Commenting on recent admissions by Rwanda's vice-president as to his country's role in toppling former president Mobutu Sese Seko, Ms Emma Bonino said Major Paul Kagame had exposed "one of the biggest lies of our time". She said she would like to hear an explanation from Washington of Mr Kagame's claim that the rebellion took place with US approval.

Speaking after a United Nations investigator banned by Congo-Kinshasa's new government identified 134 massacres of Rwandan refugees by forces loyal to Mr Kabila, Ms Bonino said the international community should step up pressure on Mr Kabila to co-operate. MrKabila's government has rejected the claims. *Michela Wrong, Nairobi*

● Fresh shooting shook the battered Congo (Brazzaville) capital yesterday despite the initialling of a truce agreement by President Pascal Lissouba and his predecessor Denis Sassou Nguesso. *Reuter, Kinshasa*

Clinton firm on Bosnia

US President Bill Clinton refused to rule out continued US military involvement in Bosnia after June 30, 1998, despite Senate pressure to withdraw by then. "I believe the present operation will have run its course by then, and then we will have to discuss what, if any, involvement the US should have," he said during a visit to Denmark at the weekend.

The House of Representatives last month voted to cut off funding for US troops serving in a Bosnia stabilisation force (SFOR) next June, and the Senate on Friday strongly urged, a pull-out by then. *Reuter, Copenhagen*

Spain prices on track

Year-on-year consumer prices rose marginally in Spain last month, but the overall trend of sharply lower inflation, fuelled by falling fresh food prices, remained on track. Figures released yesterday showed a zero price rise in June, against a 0.1 per cent price fall a year ago. Year-on-year headline inflation stood at 1.6 per cent, against 1.5 per cent at the end of May and 3.6 per cent in June 1996.

Analysts believe that inflation will now stabilise at 1.5-1.6 per cent through to the fourth quarter of the year, when it will edge up to 1.7 per cent. Underlying inflation, which excludes volatile fresh food and energy prices, stood at 1.9 per cent year-on-year in June, unchanged from May, and is forecast to rise to 2.2 per cent in December.

Registered unemployment fell last month by 31,881 to bring the total down to 13 per cent of the labour force, against 13.2 per cent at the end of May. It was the lowest percentage of jobless registered at the government's employment offices since June 1981. *Tom Burns, Madrid*

German living costs rise

Germany's inflation rate edged higher again in June, with official figures showing a 1.7 per cent increase in the cost of living index compared with a year before. That compared with an inflation rate of 1.6 per cent in May, according to the federal statistics office.

Between May and June the index rose 0.2 per cent with particularly strong increases in the cost of air fares and coffee prices. *Rolph Atkins, Bonn*

EU cotton dumping row flares

By Neil Buckley in Brussels

A political row over one of the European Union's most sensitive anti-dumping cases re-ignited after the European Commission opened a third investigation into dumping of unbleached cotton by six Asian countries.

The re-opening of inquiries could lead to provisional anti-dumping duties being reimposed oo imports from China, Indie, Turkey, Pakistan, Indonesia and Egypt as early as the autumn – only months after EU ministers voted to remove them.

It has also brought calls for changes in EU rules to prevent "chain complaints", or plaintiffs re-issuing complaints immediately after they have been rejected.

The cotton dispute was forced on to the agenda of two EU foraign ministers' and heads of governments' meetings in May – aimed at preparing for June'a Amsterdam summit – at the insistence of French President Jacques Chirac.

Mr Chirac hed promised during the French parliamentary elections then under way to protect textile jobs. But be failed to persuade EU leaders to overturn a decision by trade ministers not to convert provisional, or temporary, duties imposed by Brussels into definitive duties.

The Commisaion hed backed a complaint by EuroCoton, tha cotton producers' lobby, that the six countries were damaging EU producers by dumping cottoo at below-cost prices. It imposed provisional, six-month, duties of between 13 and 23.9 per cent on imports worth about Ecu550m ($615m) a year.

Trade ministers refused to back tha duties at the end of the six months after e last-minute change of heart by Germany, which sided with free-trade supporters such as Scandinavia. Cotton processors, garment makers and retailers had warned that the duties would destroy more jobs than they created, by pushing up raw material costs.

EuroCoton threatened to taka the issue to the European Court of Justice, and immediately re-lasuad a alightly modified complaint – its third – to the European Commission.

Brussels officials said last week initial inquiries had again found evidence of dumping, and they ware obliged to open another in-depth investigation.

The case could become a test of tha Commission's new approach to dumping, which calls for a broader view of the impact duties could have on various EU business sectors.

If the Commission does impose dutiea, the issue could provoke a new row among EU ministers – who must again ratify the Commission's decision – with the new French leftwing government under even more pressure than its predecessor to safeguard jobs.

US owes $1.3bn, but wants sweeping reforms before paying reduced fee

Washington waves big stick at UN

The US wants two seats in the United Nations: one for the administration and the other for Congress.

This was the reaction of one western European delegate to the stringent conditions set in a bipartisan Senate agreement, endorsed by President Bill Clinton, to settle a long-standing US debt that has crippled the UN.

According to Mr Joseph Connor, the American former head of Price Waterhouse who now is the UN's chief financial officer, US arrears total $1.3bn – more than a year's regular budget – yet the Senate offer is for only $819m.

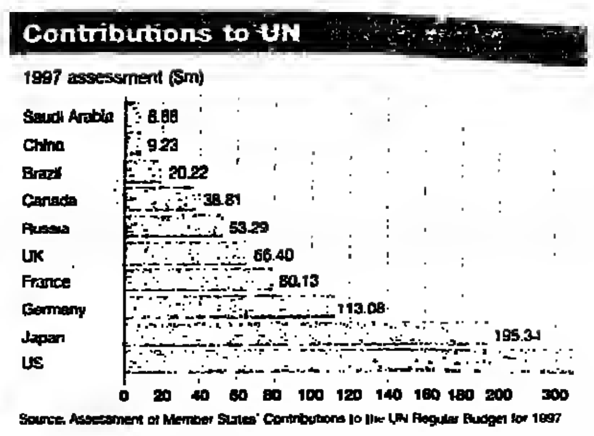
The sum the UN finally receives could be whittled down to no more than $633m, a budget committee expert estimated.

Most member states want to argue for better terms but Washington usually gets its way and few doubt that the Senata proposal, or something close to it, will eventually prevail.

The US conditions include UN staff reduction, sweeping institutional reform, access to UN financial records by congressional auditors – an unhappy reminder of FBI intrusions during the political witch hunts of the McCarthy era – and mandatory consultation with Congress whenever a peacekeeping operation is proposed.

After six months of intensive discussions among senior UN officials on proposals to reform the ageing institution, Mr Kofi Annan, the secretary general, will unveil his own comprehensive plan in the UN general assembly on Wednesday. It is certain to be the subject of highly contentious debate at the session which opens on September 16.

Kofi Annan: offering his own plan



Source: Assessment of Member States' Contributions to the UN Regular Budget for 1997

Meanwhile, most of the European Union states would like to contest the Clinton-Senate payment plan, uot only because they are unhappy with US parsimony but also out of self-interest. If the Senate call for a reduction of the assessed US contribution to the UN regular budget from 25 to 20 per cent is accepted, the EU's share could rise to 41 per cent from about 37 per cent at present.

With Japan's assessment then likely to equal that of the US, just 17 states – out of 185 – would have to contribute more than 80 per cent of the annual budget.

China, with a population of 1.2bn, is now assessed at less than Belgium pays. But it would probably see its rate rise sharply, in part because of the acquisition of Hong Kong. National income is a factor in agreeing assessments.

Many Senate and House of Representative members are well aware that some of their proposals are in contravention of treaty obligations.

"They simply said, 'We do not care,' one European diplomat reported after a visit to Washington. What the EU and many small states do care about is a US plan to compensate itself to the tune of $100m for equipment and services supplied to UN peacekeeping operations, while withholding cash that ought to be used to repay other contributors. For instance, Belgium, which has 900 troops under UN command in eastern Slavonia, is owed $75m for this and other operations. The UN obligation to EU members exceeds $750m, according to one estimate.

The recent Congo (Brazzaville) experience illustrated how difficult it has become to mount a military exercise under the UN flag. With no guarantee of repayment, poor countries of Africa and Asia may be less inclined to volunteer help.

Meanwhile, the UN is still having to borrow from peacekeeping accounts – cash contributed by members in good standing – in order to replenish its sinking regular budget and meet day-to-day expenses. This is a highly unorthodox arrangement of questionable legality, but Mr Connor has said he has no option. With peacekeeping on the wane, soon he may have no pot to raid.

The current scale of assessments expires on December 31, meaning the general assembly session this autumn will have to make some agonising choices or risk a further erosion of US support.

"It's like the playground bully when we were in school," a European diplomat observed. "You feared him, but you couldn't fight him."

Michael Littlejohns

G30 seeks to curb bank crises

By George Graham, Banking Correspondent

Tbe world's biggest banks have for years run their businesses on e global scale, but the regulatory systems designed to make sure they are safe and sound are still merely national.

Efforts to eddress that contradiction gained ground et the weekend with a report* from the Group of 30, e Washington-hased think-tank bringing together bankers, government officials and academics. It celled for establishment of a standing committee to decida on guidelines for monitoring and controlling risks in leading international banks.

"The global operations of major financial institutions and markets have outgrown the nationsi accounting, legal and supervisory systems on which the safety and soundness of individual institutions and the financial system rely," the report said.

The G30 study group, co-chaired by Lord Alexander, chairman of National Westminster Bank, and Mr John Heimann, cbairman of global financial institutions at Merrill Lyncb, focuses on around 60 "core institutions", tbe multinational commercial and investment banks whose failure could sbake the entire financial system.

"The objective must be to eliminate systemic risk – to devise sn international financiel system that can withstand sbocks without failures cascading througb the system." The report recommends six main areas for action:

- A standing committee to estnblish international ground rules for managemant controls;
- Increased disclosure and externai audits to ensure compliance with egreed standards.
- Increased investment in risk measurement syetems and pay scales that put complionce officers closer to front-office bankers.
- Steps to ensure risk reduction measures such as netting are legally binding in the event of bankruptcy.
- National supervisors should agree on a co-ordinator to take lead in overseeing big multinational banks;
- Risk control needs to be stepped up in the infrastructure of the financial system, such as exchanges and settlement systems.

The proposals have won considerable support from regulators.

Tokyo in offer on financial services

By Gwen Robinson in Tokyo

Japan says it will ettempt to inject fresh impetus into the World Trade Organisation's talks on liberalising financial services this week with an offer to permanently lift all restraints on foreign companies operating in its financial services market.

Under the proposal Japan would extend to foreign competitors all the main provisions of its "big bang" programme of planned financial deregulation.

Mr Hiroshi Mitsuzuka, Japan's finance minister, urged other WTO member countries also to make 'meaningful concessions'.

The talks are aimed at achieving a global pact on financial services liberalisation between the WTO's 131 member countries by the end of the year. They follow earlier failed attempts to achieve a similar pact under the 1986-93 Uruguay Round of multilateral trade negotiations.

The US withdrew from talks in 1995 arguing that offers from developing countrias were insufficient to justify completely opening its own financial services market, the largest in the world.

Under pressure from the European Union, a provisional deal was forged. That agreement expires at the end of the year and there is no support for renewal withont US participation.

The WTO iannched its new attempt to achieve a pact earlier this year, and set a target date of July 14 for fresh offers to be submitted by member countries.

The EU says its new offer goes beyond existing commitments, confirming non-discriminatory foreign eccess to the European financial services market. It has eliminated 12 current restrictions and limited the scope of othera. Among curbs the EU is offering to scrap are tha economic needs test in Austria's banking sector and the requirement to incorporate in Belgium to be able to deal in securities there.

The US and Canada have said they will submit new offers by tomorrow.

Japan's WTO proposal reiterates points in Tokyo's big bang plan, including removal of foreign exchange controls; freedom for companies and individuals to deal directly with overseas banks and brokers; and unimpeded access for foreign insurance companies to offer services in Japan.

Caspian oil share sought by Russians

By Charles Clover and Robert Corzine in Almaty

Talks aimed at breaking a deadlock in the negotiations to launch one of the biggest international oil projects conceived for the Caspian Sea region will open in New York today. The move comes amid apparent wrangling by Russian companies to secure a position in the project.

Representatives of the Kazakh government will meet their counterparts from a consortium of seven western oil companies trying to sign a production-sharing agreement with the aim of drilling their first exploratory well off Kazakhstan in 1998.

The western companies claim there is still a high degree of risk as to whether any oil will be found in the area but admit that the geology is almost perfect for world-class reservoirs. Some experts claim the north Caspian could be another Kuwait.

The negotiators are under pressure from Kazakh President Nursultan Nazarbayev to agree on a deal within the next two months, but positions have hardened on both sides. Failure to agree in the next two months could push the project back a full year because of the limited drilling season in the very shallow water 100km off the northern Caspian Sea.

According to those familiar with the negotiations, the two sides disagree on fundamental issues such as oil prices and reserve estimates, which will affect the consortium's ability to reach the 20 per cent rate of return target being offered by the Kazakhs. Another big issue is the pace of the proposed drilling programme.

But many observers see the consortium structure itself as a leading difficulty. "The biggest problem is the process. The consortium can't arrive at a common position," said a western businessman familiar with the negotiations.

The list of the consortium members reads like a Who's Who of the international oil business: Agip, a British Petroleum/Statoil partnership, British Gas, Mobil, Shell, and Total. The difficulty in co-ordination among the seven arises from the fact that the companies have different priorities in Kazakhstan.

Some consortium members would like to bypass the Kazakh negotiating team and appeal directly to President Nazarbayev to break the logjam, but at least one – thought to be Mobil, which has extensive interests in Kazakhstan – is said to be against this tactic, which may undermine its position in the country.

Meanwhile, two of Russia's biggest oil companies are said to be manoeuvring for a stake in the offshore exploration effort. Lukoil and Rosneft have been competing for the a position in the offshore area.

Western oil executives say they would welcome Russian participation in Kazakhstan's offshore, a sentiment thought to be shared by the Kazakh government in the hope that such involvement would deter the Kremlin from challenging the legal status of oil developments in the Caspian.

Colombian football linked to organised crime

By Timothy Ross in Bogotá

Widespread connections between Colombian football and organised crime have been uncovered in an extensive investigation by a government regulator.

The probe into clubs' ownership by the companies supervision department has discovered dozens of substantial stockholdings by people convicted of drug trafficking, on trial or fleeing justice. Mr Dário Laguado, who headed the investigation, said five of Colombia's top teams were more than 70 per cent owned by people with criminal connections.

The government could as a result become majority owner of many of Colombia's best football teams if a law requiring the forfeiting of assets is invoked.

There is also evidence of criminal investment in some professional basketball and baseball teams, said Mr Laguado, who pledged that investigations would continue in other sporting fields.

Mr Laguado's team of financial detectives combed through nearly 100,000 shareholders to discover a core group of 142 with controlling interests in most Colombian soccer clubs. They also found numbers of stock record discrepancies, including names and identity card numbers which did not match, and numbers belonging to dead people or never issued, suggesting, said Mr Laguado, that fake identities may have been used as covers for criminals. These cases have been sent to the prosecutor-general with a request to open proceedings.

Within the next week the department's report goes to the prosecutor's office for possible further legal action, which could include application of Colombia's new asset forfeiture law if it is proved that the shares were purchased with drug trafficking profits.

Sponsoring football has long been popular with cocaine traffickers as a means to gain public support and launder money through multi-million-dollar bets. Inflated gate money, transfer fees and travel expenses have reportedly been used as means of laundering smuggling profits. Links have at times not been disguised: goalkeeper René Higuita was shown on TV entering a prison to visit Pablo Escobar, Medellín cartel leader. The captain of Colombia's 1994 World Cup team, Carlos Pibe Valderrama, was named last week in a Florida drugs trial, as being paid by the Cali cartel to film a campaign commercial for presidential candidate, Mr Ernesto Samper.

Spokesmen for several teams have rejected the accusations.

Hun Sen calls for elections in Cambodia

Prince Ranariddh stumbles in search for support from US and UN after being ousted

By Ted Bardacke in Bangkok, Heather Bourbeau in Washington and Gwen Robinson in Tokyo

Mr Hun Sen, Cambodia's co-prime minister, called for free and fair elections to be held in his country as he battled for international legitimacy with his rival premier, Prince Norodom Ranariddh, who was ousted from power last week.

Mr Hun Sen did not give a date for the elections but he and Prince Ranariddh, the "first" prime minister, had earlier agreed to hold them next May. Analysts say it would have been difficult for the coalition government to organise such elections fairly without substantial international assistance, which may no longer be forthcoming now that the UN-sponsored coalition government has been shattered.

Nevertheless, some dissident members of Prince Ranariddh's royalist party said over the weekend they would lead the party in an attempt to keep the coalition together.

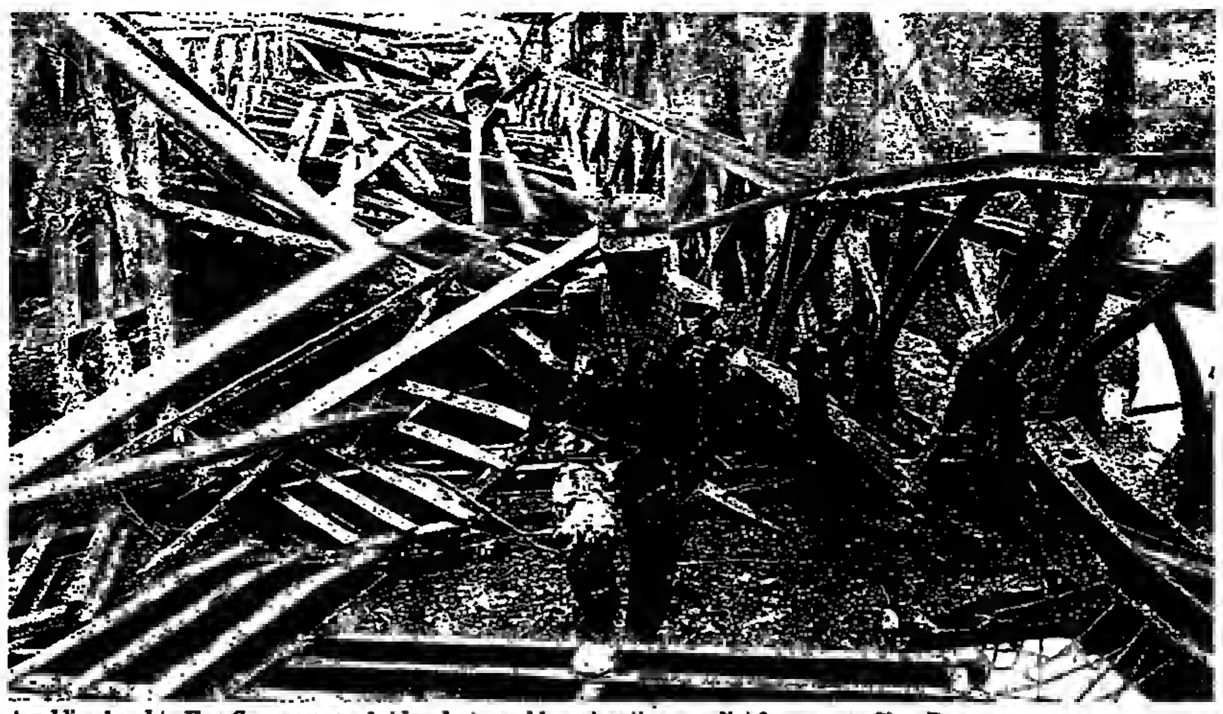
Meanwhile, the prince appeared to stumble in his attempt to drum up support from the UN and the US.

The UN, in what diplomats called only a mild rebuke to Mr Hun Sen, condemned the violence in Cambodia but did not mention Mr Hun Sen's grab for power. It called for Cambodia to hold free and fair elections by next year, as demanded in the 1991 Paris peace accords.

The US was reluctant to make strong commitments when Prince Ranariddh met members of the US State Department and Congress in Washington on Friday. The administration has so far only cut off aid to Cambodia for 30 days and has refused to use the word "coup" to describe Mr Hun Sen's ascent to sole power.

In Beijing, King Norodom Sihanouk said he was unwilling to endorse moves or legislation put forward by the Hun Sen government. But the ailing monarch appeared to back away from supporting resistance moves by his son, the prince, saying he would not actively block government measures by returning to Phnom Penh.

A cable from the Australian ambassador in Phnom Penh, published in the Sydney Sun-Herald newspaper, urged Canberra to back Mr Hun Sen to avoid further fighting and civil war.



A soldier loyal to Hun Sen crosses a bridge destroyed by retreating royalist forces near Siem Reap Reuter

In Cambodia yesterday hundreds of Cambodian government troops supported by rocket and artillery fire, chased opposition forces west about 50km outside Siem Reap and the Angkor Wat temple complex.

In Japan, protests marked the sending of three C-130 military transport aircraft of the Japanese Air Self-Defence Force to a Thai naval base southeast of Bangkok, to stand by to evacuate about 370 Japanese nationals from Cambodia.

It is the first time Japan has sent military aircraft to evacuate Japanese nationals – a mission that recently would have been viewed as a violation of the country's pacifist constitution.

While evacuations of US citizens from Cambodia continue, Mr Kenneth Quinn, US ambassador to Cambodia, is trying to arrange a meeting with Mr Hun Sen to open negotiations to a peaceful settlement.

Such efforts are welcomed by Prince Ranariddh, who stressed that the priority of the international community should be diplomatic efforts and economic sanctions. He added that fighting must be avoided: "The Cambodian people have suffered too much for too many years."

Protest over HK labour rights

By John Ridding in Hong Kong

Hundreds of demonstrators marched in Hong Kong yesterday in a growing dispute over plans by the post-colonial government to suspend laws strengthening labour rights.

The laws, passed in the final days of British sovereignty, give workers the right to collective bargaining in pay negotiations. The new government argues that they were passed hastily and threaten to blunt Hong Kong's competitiveness. But critics say the planned suspension marks the increased influence of big business in post-colonial politics and condemn the role of the new Beijing-backed legislature in striking down laws passed by the elected chamber it replaced.

"It gives a terrible beginning to the SAR [semi-autonomous region, the official status of post-handover Hong Kong]," said Ms Christine Loh, leader of the Citizens' party. "It shows a lack of respect for the legislative process."

In the face of criticism, the government agreed last week to allow several days to debate the laws, rather than impose an immediate suspension. But the issue has remained controversial.

Yesterday's march to the office of Mr Tung Chee-hwa, the post-colonial leader, was the biggest since pro-democracy forces staged rallies on July 1, the day of Hong Kong's return to China.

Mr Tung's government said last week it would introduce a bill on Wednesday to suspend the labour laws. It said the legislature would need a "proper and thorough scrutiny of the implications" of the laws before voting.

Mr Lee Cheuk-yan, a leading trade unionist and former legislator, has held a five-day hunger strike against the government's planned move, arguing that his action has increased pressure on the administration. "At least the hunger strike has achieved the purpose of raising the consciousness of the population in Hong Kong about how the new government handles labour rights law," said Mr Lee.

Business leaders have urged the government to suspend the laws, arguing that they threaten to disrupt peaceful industrial relations between management and employees. Sir Donald Tsang, financial secretary, has also criticised the laws, arguing that they could damage the investment climate in Hong Kong.

Investment into Asia up sharply

By John Ridding

Foreign direct investment into Asia rose by 25 per cent last year to $81bn, with China remaining one of the world's main targets for capital and Hong Kong one of the biggest sources, according to a study by Unctad, the trade and development agency of the United Nations.

While foreign direct investment into industrial economies remained stable at $208bn, investment in developing countries jumped from $97bn in 1995 to $129bn last year. Asia accounted for two-thirds of these flows, with China drawing $42bn.

"China's success can be attributed to its large and growing domestic market, its economic 'soft landing' as well as measures to promote investment in interior provinces," said Mr Karl Sauvant, head of Unctad's international investment, transnationals and technology branch.

While Asia's developing economies account for an increasing proportion of investment inflows, they have also become significant sources of capital, particularly for other Asian economies. According to the report, developing countries last year invested $51bn overseas, about 15 per cent of all outward investment, with Asian developing economies accounting for $46bn. Hong Kong alone supplied $27bn, maintaining its position as one of the world's four biggest sources of foreign direct investment.

"Asia's least developed countries are benefiting from the process of industrial restructuring being driven in the region by Asian industrialising economies," said Mr Sauvant. He cited Bangladesh, which is receiving 80 per cent of its investment from neighbouring economies. Burma receives 40 per cent of its foreign investment from regional economies.

In addition to the increased capital inflows into Asia, the economies of Latin America and the Caribbean have also been seeing a sharp rise in investment.

From less than $18bn in 1992, they attracted investment of $39bn last year. This marked a rise of more than 50 per cent over the amount for 1995.

Global inflows of foreign direct investment rose by 10 per cent to $349bn in 1996 and have more than doubled from $168bn in 1992. Flows to developing countries last year amounted to 37 per cent of the total, up from 30 per cent in 1995.

Turkish government promises an unwavering secularist course

By John Barham in Ankara

Turkey's new government, fresh from winning a confidence vote, has promised unwavering adherence to the secularist principles of Kemal Atatürk, who founded modern Turkey in 1923, and is expected to make a strengthening of the secular state its principal priority.

Mr Mesut Yilmaz, leader of the new minority coalition government, said: "The way of our government will be Atatürk's way. Parliament reflected the will of the people." MPs confirmed his government in power on Saturday by 281 votes to 256. A fist fight between leftwing and Islamist MPs disrupted voting for 15 minutes.

The government took over two weeks ago after months of intense pressure from the military, guardians of Atatürk's heritage, forced out a coalition led by Mr Necmettin Erbakan's Islamist Welfare party.

The new coalition is a precarious alliance of conservatives and social democrats, with a leavening of defectors from the True Path party of Mrs Tansu Çiller who shared power in a coalition with Welfare for nearly a year.

Ministers said last week they would not attempt any "shock decisions" to stabilise the erratic economy. Instead, the government is to prepare the groundwork for a secularist victory in early general elections.

Mr Sedat Ergin, an editor on the mass circulation newspaper Hurriyet, said: "Political tension is over. The people and the country are relieved. The military are happy."

Welfare, now Turkey's largest political party with one quarter of the seats on parliament, owes its rise in great part to disgust at political corruption and economic mismanagement. Mr Yilmaz is expected to call elections in 1998, two years earlier than required.

The left is split into two parties, one in the new coalition and the other promising qualified support in parliament.

As well as True Path and Mr Yilmaz's Motherland party, there is a third conservative grouping in parliament, Democratic Turkey party, plus an amorphous batch of conservative independents.

Mr Yilmaz has relied on the last two groups, composed of True Path defectors to form his new government. If he succeeds in absorbing them into Motherland, he may yet emerge as sole leader of the centre-right.

Mr Erbakan however, remains a formidable political operator.

Welfare vows to resist the government's decision to close Islamic schools and plans to topple Mr Yilmaz at the earliest opportunity, precipitating elections before the end of this year.

Blind eye to currency turmoil

Asian central banks' swap network failed to rally in defence of peso

Conspicuous by their absence from the frenzied speculation which swept the Philippine peso from its perch on Friday were the Asian central banks that have set up a much vaunted multi-billion-dollar network of swaps to defend their currencies against such attack.

The fall of the peso – and that of the baht before it on July 2 – were in striking contrast to the first attack against the Thai currency in May, when regional central banks went on to public attack against the speculators.

Then several, including the normally reticent Monetary Authority of Singapore and the Hong Kong Monetary Authority, happily admitted their involvement in the markets. This weekend most were tight-lipped and dealers said there was no evidence that the swap network had been activated to help the peso.

The Hong Kong Monetary Authority, one of the most active supporters of regional central banking collaboration, said repurchase agreements were "still effective in the long term in helping to ensure monetary stability in the region". But bankers said the Thai and Philippine experiences had also shown up the limits of such collaboration.

"The dynamics changed after the Thai baht devalued," said Mr Lam Kun Kin, a senior foreign exchange executive at Citibank in Singapore. "There's no point in trying to defend an exchange rate which is not sustainable. The central banks don't want to give profits away to the market."

After the central banks successfully repelled the first attack against the baht in May there was some enthusiasm for taking the collaboration further, said one international economist, but it waned with the realisation that the repurchase agreements did not provide much extra value.

Under the arrangements negotiated among more than a dozen Asian central banks, a country whose currency is under pressure can raise dollars need for intervention by swapping its holdings of US government securities for cash held by other central banks in the network.

But, though this gives the central banks access to more liquid resources, they are still in effect using their own money. "They will not support another's currency," said Mr Greg Fager, of the Institute for International Finance in Washington.

Mr Fager and other economists say the Asian central banks are a long way from entering arrangements similar to the European Exchange Rate Mechanism whereby central banks are committed to intervene in one another's currencies, but this does not mean there is no sense in pursuing closer collaboration.

Asian central banks have a lot to learn from one another in such areas as banking supervision, handling financial sector deregulation or even managing different kinds of currency regimes.

Indonesia, for example, which has been widening the permitted fluctuation bands of the rupiah since last year, has suffered less than other countries from the speculation. But the relationship between central banks is "not a financial one", said Mr Fager.

Behind their veil of silence it is difficult to tell whether the central banks are nursing grievances against one another for the way in which the speculative wave was allowed to strike first one currency and then another.

Mr Neil Saker of SocGen-Crosby in Singapore believes there may have been some disappointment in the region at the way Thailand sprang its devaluation on the markets after the central banks had worked to protect the currency in May.

"Once the dust settles, they may decide to go for a more formal approach and make sure this kind of episode doesn't happen," he said.

But most dealers believe the problem was that Thailand and the Philippines were trying to maintain unsustainable policies by linking their currencies too closely to the dollar.

This made it impossible to control their domestic liquidity so that their economies overheated when they tried to hold their currencies down in the face of excess capital inflows. Then they were unable to compensate when the reaction occurred as exports slowed down last year and a glut appeared in the property market.

Mr Andrew Fung, Hong Kong Financial Markets Association president, said the repurchase system had been developed to provide a technical cushion against speculators rather than a defence against currency devaluations: "If the economy requires a correction, then you can't work against the fundamentals."

"The repo agreements are not a failure," he added. "If the regulators think the reality is that the currency has to follow the market, then they will follow the correction."

Peter Montagnon, John Ridding

Editorial comment, Page 15

Singapore budget boosts plan to be financial hub

By James Kynge in Kuala Lumpur

Singapore reinforced its strategy to become Asia's financial centre by setting out in this year's budget a raft of tax incentives for banks, fund managers and currency dealers.

Mr Richard Hu, the finance minister, also foresaw the city-state's ninth successive budget surplus for the year to March 31 1998. The surplus is estimated at S$4.09bn (US$2.8bn), up from last year's revised figure of S$1.52bn. When contributions from net capital receipts such as land sales are included, Singapore expects a "bottom line" surplus of S$12.6bn in this financial year, up from S$9.94 in the 1996-97 year.

Economists regarded the budget, the first since general elections early this year, as mildly conservative. It made no cuts in corporate or personal income tax rates but did provide a 10 per cent rebate on last year's income tax as a reward for hard work.

Mr Hu singled out the financial services sector for favoured treatment. In an attempt to reinvigorate the somewhat slow market in foreign currency-denominated shares in Singapore, trade in these is now tax-free for most types of trader. Banks and merchant banks were given tax exemptions on income earned from managing the initial public offerings of companies listing in foreign currencies.

A concessionary tax of 5 per cent, down from 10 per cent, is to be applied to income derived from the Asian Currency Units (ACU) of banks and merchant banks, as long as ACU income exceeds S$50m. This is in effect a boost for currency dealing, the main business of ACUs.

Fund managers, 161 of whom manage funds exceeding S$125bn in Singapore, received encouragement as a 10 per cent tax rate was slashed to zero for those who manage more than S$10bn in non-resident funds, employ at least seven professional staff and have operated for more than three years in Singapore.

All fees earned from extending offshore credit and underwriting facilities were exempted from tax, whether or not the underwriters are financial institutions. The limit on tax deductable provisions for bad debts made by banks was raised from 2 to 3 per cent.

Singapore, where about 290 international banks keep offices, has for some years been competing with Hong Kong and Tokyo for the mantle of Asia's financial centre. Although Hong Kong remains pre-eminent for China-related business and Tokyo for yen-denominated currency trade, the Lion City has been making considerable strides. However, competition from Malaysia, which has a much larger and more liquid stock market than Singapore, is intensifying.

Manufacturers, many of whom had hoped for a corporate tax cut to offset rising costs, were disappointed. Wage and land costs are on the rise and productivity gains were only 0.7 per cent last year, making life difficult for some manufacturers. But Mr Hu said a series of recent corporate tax cuts was sufficient for the time being.

Mr Hu acknowledged that the city-state's high business costs had meant some "desirable" direct investments had gone elsewhere in Asia; the government would therefore ensure the supply of land for industrial projects and limit rental increases. Resources are to be devoted to climbing the technology ladder, as shown by a 50 per cent increase in the budget allocation for research and development to S$700m.

good morning!

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Discover The Link To Life

Respite from violence following marches by Protestants may clear way for progress

N Ireland gears up for peace talks

By John Kampfner, Chief Political Correspondent

The government will this waek use its unexpected respite from violence during the marching season to make a final push for progress at Northern Ireland's multi-party talks.

In spite of isolated acts of violence on Friday and Saturday nights, with security forces coming under fire, ministers expressed relief that the July 12 Protestant celebrations had passed off comparatively peacefully.

Ms Mo Mowlam, Northern Ireland secretary, called on the IRA to follow concessions by the Protestant Orange Order to reroute and cancel marches by declaring an "unequivocal ceasefire".

However, Mr David Trimble, leader of the Ulster Unionists, a party loyal to the UK government, struck a more gloomy note, urging an end to "wishful thinking" on the prospects of an end to republican terrorism.

The constitutional parties, who reconvene tomorrow for peace talks, have until the end of the month to agree a detailed timetable to discuss decommissioning of arms by paramilitary groups when the negotiations resume after the summer holidays in September.

"I understand the concerns of both the unionist and nationalist communities, and the pain that they've both gone through this last couple of weeks is one that none of us want to repeat," Ms Mowlam toid Sky television. "Let's make sure we have a political process to offer the people of Northern Ireland that the constitutional parties are engaged in."

She added: "And let the IRA, Sinn Féin, make their decision ...We can't decide for them." The government has said Sinn Féin, the political wing of the IRA, can join the talks six weeks after demonstrating an unequivocal abandonment of violence "in word and deed".

But Mr Trimble said this weekend's rioting in Belfast and Londonderry showed "the real character of Irish republicanism".

The incidents occurred hours after tens of thousands of Orangemen marched without confrontation after amending the routes of their most contentious parades.

Mr Gerry Adams, Sinn Féin president, said "mass mobilisation" of nationalists had extracted tha concessions. "It gives us a breathing space," he said. "All right thinking people want to ensure that this should be the last marching season where we have all of this tension and difficulty."

Mr Trimble said any shift from violence by Sinn Féin would not be sincere. "We must have an end to both the wishful thinking and also the bad priorities, the bad policies that soma peopla base on wishful thinking and we've got to leave them behind," he said.

Lasting peace, Page 14

Press Association

An Orangeman talks to a British soldier on duty to protect one of the weekend's Protestant marches

Brussels backed on farm reform

By Maggie Urry and George Parker

Mr Jack Cunningham, the agriculture minister, has written a letter of support to Mr Franz Fischler, the European Union's agriculture commissioner, firmly taking the Commission's side in what is expected to be a fierce debate on the future of EU agriculture policy.

Many details of the Agenda 2000 proposals for reform of the EU's Common Agricultural Policy have emerged ahead of their formal presentation this week. European farmers have condemned the proposals, which would drastically reduce subsidies paid to them, although UK farmers' leaders have welcomed them.

Mr Cunningham is keen to push the debate forward during the UK's presidency of the EU next year. In his letter, Mr Cunningham promised the UK would play "a constructive and imaginative role" in the discussions. He said: "I agree with a great deal you [Mr Fischler] have been saying over the past year." Reform would reduce food prices and improve the EU's public image, he said. But Mr Cunningham stressed the UK would not countenance "any arrangements which discriminated against the UK industry *vis-à-vis* those of other member states as a consequence of the particular structure or efficiency of UK agriculture".

This refers to the policy of modulation, popular in many EU states, which would limit the amount of aid any farmer could receive and so favour smaller producers. The average UK farm is larger than those in most EU countries, and British farmers would be disadvantaged by modulation.

A note on the UK's view of the reform proposals, attached to Mr Cunningham's letter, said milk quotas should only be extended beyond 2000 if "a path for the eventual removal of quotas" was put in place now.

● Mr Cunningham will go to Strasbourg tomorrow to answer questions about the illegal export of 1,600 tonnes of British beef, posed by the European parliament's temporary committee of inquiry into BSE, or "mad cow disease".

The government is expected today to signal a reduction in the number of jobs to be lost in the customs service, with ministers pledging a renewed commitment to invest in plans to tackle drugs smuggling, John Kampfner writes. Ministers will announce the final stage of an expenditure review of anti-smuggling work that began in 1994. In opposition, Labour opposed the first tranche of cuts announced by the then Conservative administration, which saw the phasing-out of 292 jobs by March 1996. The original plan was for a further rednction, also of around 300 jobs.

The issue has been the subject of intense discussion among cabinet members, with some pointing to the long-term benefit of increased investment in the anti-drugs arms of the customs department.

Airline services are still disrupted

By Robert Taylor, Employment Editor

British Airways services will not be fully operational at London's Heathrow airport until the middle of this week, following the ending last Friday of the 72-hour dispute by its cabin crew. The company said it hoped to have 85 per cent of its longhaul services and 60 per cent of its European services running normally by today along with just over half its UK domestic services.

Many crews and aircraft remain out of position as a result of the disruption, the airline said last night, and it would take some time to overcome this problem. It added that 2,000 cabin crew had reported sick during last week's three-day strike and only 200 had reported for work yesterday.

BA had threatened to suspend any staff involved in the disruption who refused to guarantee they would work normally. The company maintained this position last Friday. But yesterday the airline said that "we have taken a definite decision not to suspend anyone".

This move may help to pave the way to talks over the next few days with the TGWU union on resolving the cabin crew dispute. Unioo leaders have agreed to present proposals to make the £42m ($71m) worth of savings BA requires as an alternative to the agreement imposed on them last mouth.

Today efforts will also be made to try and resolve a separate dispute threatened by BA's catering staff. They have rejected the airline's proposals to sell its catering operation to another company although an improved offer guaranteed them no cut in pay and benefits and a continuation of their travel privileges after the change of ownership has taken place.

The majority of ground staff, have already voted to back industrial disruption in support of the catering workers.

Lloyd's seeks to join City shake-up

By Christopher Adams, Insurance Correspondent

Lloyd's of London could be brought under the regulatory umbrella of the Securities and Investments Board much earlier than expected and as part of the government's wide-ranging shake-up of City regulation.

Lloyd's has been discussing with government officials how it might be possible to bring the regulation of the 300-year-oid insurance market under the auspices of SIB without changing the Lloyd's Act.

This would simplify the legislative changes required to end self-regulation at Lloyd's and allow tha insurance market to be included in the reforms of City regulation contained in the Financial Services Act when it is published next year.

It had been thought that changing the rules on Lloyd's would complicate the passage of the financial services bill and delay regulatory reform at the market. Lloyd's put forward plans two months ago for it to be regulated by SIB, a change which it argued would better protect members.

The inadequacies of self-regulation were exposed after Lloyd's failed to check the wealth of investors coming into tha market during the 1980s and allowed negligent underwriting to flourish. Many members were ruined when the market suffered disastrous losses.

During discussions over the last few weeks with the Treasury and the Department of Trade and Industry, which regulates the society for solvency purposes, Lloyd's has sought to be brought under SIB ahead of any review of the rest of the insurance industry.

It has written to Sir Andrew Large, head of SIB, saying that, in spite of its complexities, only a small team of staff would be required to carry out SIB's duties and that it does not envisage the regulator becoming involved with disciplining underwriters and investigating their activities.

UK NEWS DIGEST

Health service benefits probed

The government is to examine the National Health Service's benefits to the economy as part of its spending review. The work will include a study of the state health service's role in attracting overseas investors to the UK. One senior NHS executive said it "could change the whole tone of the debate" about NHS spending.

The aim "is to get away from seeing the health service simply as a giant sponge which soaks up money, but to look at the positive contribution to the economy from the £40bn ($67.6bn) that the taxpayer spends on the NHS", the executive said. A well-argued outcome, some NHS managers believe, could help the government put the case to the public for higher NHS spending and possibly higher taxes to pay for it.

The NHS is important to the economy as an employer and equipment purchaser, and spends significant sums on research. It also contributes to the success of the UK pharmaceutical industry, one of Britain's most important export industries.

Mr Lionel Joyce, a senior council member of the NHS Confederation, which represents health authorities and trusts, said the NHS had also helped to attract inward investment to the UK. "The fact that the NHS is paid for by general taxation, rather than direct employer contributions to health care costs, as in much of Europe and the United States, must give the UK a competitive advantage," Mr Joyce said. "It must have played some part in the huge rise in inward investment."

Between 1991 and 1996, the UK attracted $110bn of inward investment, says the OECD. The UK took 40 per cent of the inward investment to the European Union last year. Also, many hospitals are in inner cities and can play a key part in their regeneration. *Nicholas Timmins*

■ WATER

Wider use of metering urged

A left-leaning think-tank will today urge the government to introduce widespread metering as a way of making water charges "fair and environmentally sustainable". The call by the New Policy Institute comes in the run-up to the July 31 deadline for responses to the government's review of water charging. Just 10 per cent of UK households are currently metered. The current system is based on values of houses last updated in the 1970s. The 1991 legislation which privatised the industry called for this system to be phased out by the end of the century.

The Labour party launched a review when it was elected in May but appears to have pulled back from some of the more vociferous objections to metering made in opposition.

The institute argues for a system of metering combined with a relatively high standing charge based on local tax liability. Mr Bob Hills, one of the report's three authors, says that this method fulfils three central criteria – economic efficiency, environmental sustainability and social justice. *Jane Martinson*

■ SMOKING

Nicotine level to face review

The government is to look at cutting the permitted level of nicotine in cigarettes, placing tougher restrictions on the location of vending machines and raising the age at which cigarettes can legally be bought from 16 to 18 as part of its drive against smoking. Consideration of the measures is disclosed by Ms Tessa Jowell, the public health minister, in an article in today's Financial Times ahead of the international summit on tobacco control which the government is holding today.

The measures come on top of the government's determination to ban tobacco advertising, phase out sports and arts sponsorship and decrease tobacco consumption through continued rises in taxation. Ministers are also to encourage a debate on passive smoking and smoking in public places, although Ms Jowell has said that progress by voluntary agreement is "a better way to proceed" there. The conference comes as latest figures show smoking among young people continuing to rise. Among 15 year olds, the proportion who smoke is up to 33 per cent among girls from a low of 22 per cent in 1988, and up to 28 per cent among boys from a low in the same year of 17 per cent. *Nicholas Timmins*

Personal View, Page 14

■ NATIONAL LOTTERY

Watchdog to see company's books

The government is planning to tighten the regulation of Camelot, the lottery operator, with a tough regime including punitive fines for breaches of licence and power for official auditors to see the company's books. Mr Chris Smith, the heritage secretary, is expected to announce the proposals this month, as part of a wider review of the lottery's operation.

Ms Dawn Primarolo, financial secretary to the Treasury, has approved demands from the Commons public accounts committee for the National Audit Office – the public spending watchdog – to be given limited access to Camelot records. These checks have never been extended to a regulated private company before. The NAO wants the power to check the flow of cash from lottery ticket retailers through Camelot's accounts to the National Lottery Distribution Fund for good causes – £1.4bn ($2.3bn) in 1995-96.

Mr Smith hopes the tighter regulatory system will deflect attention from a government U-turn over its manifesto pledge to run the lottery on a "not-for-profit" basis. A white paper on the lottery, due out on July 21, will confirm that ministers are prepared to allow the lottery operator to make an element of profit, through "efficiency incentives". Mr Smith now accepts it is unlikely an operator will be found to run the lottery on a non-profit basis, especially now that Mr Richard Branson's Virgin Group says it is no longer interested. *George Parker*

PUBLIC NOTICES

Babel comes to Brussels

DATELINE

Brussels: The experiences of Ireland and Finland offer hope that European enlargement will succeed, writes Lionel Barber

Every time the European Union opens its doors to new members, the result is culture shock all round.

Take the case of the British or the Danes. Twenty-five years after they joined, they still come across as semi-detached members of the club. No wonder the Benelux, France, Germany, and Italy occasionally whisper that life was a lot easier with Six.

The EU's plans to include central and eastern Europe spell culture shock on a grand scale. Ten former communist countries, whose combined GDP is less than that of the Netherlands, have applied for membership. The first wave of will not join until 2002-2003 at the earliest; but taking in countries such as Estonia, Hungary, or Poland will change the Union beyond recognition.

Imagine Spain agreeing that Romania should have an equal vote, let alone an equal share of the Brussels hand-outs in regional aid. Will Germany allow cheap Polish labour to circulate freely west of the Oder? Consider, too, the more mundane business of managing a Union of 20-plus members.

The present 11 working languages involve 110 combinations. Interpreters have to "relay" translation from Danish to Greek through the official languages of English or French. With 20 languages, the number of linguistic combinations balloons to 380. Welcome to the Tower of Babel.

These sobering thoughts occur as Jacques Santer prepares for the most important day in his five-year term as president of the European Commission. On Wednesday, Santer will finally present to the European Parliament the Commission's blueprint for managing the process of eastern enlargement known as Agenda 2000.

The document runs to more than 1,300 pages. It covers the cost of enlargement, reform of the Common Agricultural Policy, border controls versus the free movement of goods and people, as well as sensitive recommendations on which countries are ready to open accession negotiations early next year.

After a heated debate, the Commission has come down in favour of five countries: the Czech Republic, Poland, Hungary, Estonia, and Slovenia. Bulgaria, Romania, Slovakia, Latvia and Lithuania will probably have to wait, though the last word rests with the 15 EU member states.

In public, all EU governments are in favour of enlargement. Leaders talk about moral obligations and the need to end the division of Europe. But what these leaders say in public is not what they say in private. The appetite for sacrifice is limited. The accession negotiations will stretch in the early part of the next century.

So far, so bad. But the good news is that the EU has proved remarkably adaptable in coping with previous enlargements. Take the most recent involving Austria, Finland, and Sweden which became members on January 1, 1995. (Norway successfully negotiated entry terms but the government lost the referendum in late 1994).

The first lesson about the Class of '95 is that the fresh blood has benefited everyone. On open government, women's equality, free trade, and sound financial management, the newcomers have tilted the balance away from the closed, male-dominated, spendthrift world which has long dominated Brussels.

Second, all candidate countries have been forced to think carefully about why they are joining the EU and how they present their case for membership to the public. The Austrians and the Swedes exaggerated the economic benefits and underplayed the costs of adjustment, and are still paying the price.

Third, the newcomers have grasped that membership means committing wholeheartedly to core EU policies. In practice, this means the project to launch economic and monetary union.

The Austrians and Finns are on board. But the Swedes have manoeuvred themselves into the position of claiming that they will meet the entry criteria for Emu, but will stay out of monetary union for political reasons.

Finland has coped much better than Austria and Sweden because its motive for joining the Union was political rather than economic. Having stepped out of the shadows of Soviet Russia, the Finns are building a new self-confidence, even a new national identity, as EU members. They are, says one Danish diplomat, the Irish of the north.

Eastern enlargement will work if the Irish-Finnish experience can be grafted on to societies whose political and economic development was stunted in the 20th century. The newcomers would marry a sense of nationhood with the consciousness of belonging to a bigger European family, with all the obligations that this implies.

None of the above will solve the problems of Polish potatoes or Bulgarian cherries, or whether Bratislava is entitled to the same amount of money as Bilbao. But it is a useful reminder that the question of identity will determine whether membership of the club is a success or not.

FT GUIDE TO:

MARS

What is the US Pathfinder mission to Mars finding out?

It has found support for the idea that water flowed on Mars several billion years ago from the way the rocks are shaped, coloured and tilted. There is also new evidence about the chemical composition of the rocks.

This is just the beginning. The Pathfinder mission is set to continue to gather data for as long as a year. The mission has already delivered five times as much data as expected; Nasa's scientists will take months to analyse it all.

Is any of this data of interest to people who are not space scientists?

Only up to a point. It is likely that this mission will not come up with any shock findings – in part because Pathfinder does not have any equipment that will allow it to get below the heavily oxidised, sterile surface of the planet.

In fact, getting spectacular scientific results was not the primary goal of this mission. That was "demonstrating the feasibility of low-cost landings on and exploration of the Martian surface".

The Pathfinder mission is one of the first tests of the "better, cheaper, faster" credo adopted by Nasa, which means that spacecraft are supposed to take no more than three years from design to launch and cost no more than $150m.

So why is there so much excitement about this mission?

The technology it has used is brilliantly ingenious. The six-wheeled rover, called Sojourner, is the first robot to move around on another planet. The airbags on which the landing craft bounced to a standstill are also daringly innovative.

Another reason for the excitement is that – after an anxious start – the mission has been triumphantly successful. As the first spacecraft to land on the planet for 20 years, Pathfinder has broken a long-standing jinx on Martian exploration.

Yet another reason why this mission has gripped many people's imagination was the dramatic announcement last summer about possible life on Mars. Nasa announced in August that what it thought "could be fossil remains of past Martian biology" had been found in a Martian meteorite.

There seems to be some argument about those findings. Is there really any evidence for life on Mars?

The scientific community is still split on this one. But the Pathfinder mission has provided some comfort to those who believe the meteorite evidence. Chemical analysis of a Martian rock named Barnacle Bill was consistent with that of the meteorite, helping to dispel doubts about its Martian origins.

No sign of Martians though. Whatever happened to that idea?

The idea of a Martian civilisation dates back to the 1870s when the Italian astronomer Giovanni Schiaparelli drew a famous map of Mars showing *canali* or channels. This word was widely misread as canals and taken as evidence of a Martian civilisation.

The idea that Mars was inhabited gripped the public's imagination and was fuelled by a constant stream of novels and films.

But the idea that Mars harboured intelligent life received a knock from the 1965 Mariner 4 mission which showed that Mars was too inhospitable for life as we know it.

What's the next step for Martian exploration?

Later this year, a probe called the Mars Global Surveyor is due to go into orbit round Mars with the aim of detecting mineral deposits, monitoring weather and mapping Martian topography.

Nasa is planning to send landers and orbiters to Mars at two yearly intervals until 2005 when it plans to bring Martian rocks back to earth.

Japanese space scientists are sending a mission next year to look at the interaction between solar winds and Martian atmosphere.

And the European Space Agency is considering sending a mission to Mars in 2003, which would drill holes in the planet's surface and carry out tests for chemical signs of past or present life, beaming the data back to earth.

What about a manned mission?

Many space scientists think that only humans can collect the relevant evidence that will settle the question of whether there was life on Mars. But there is still a lot of work to do before a manned mission is feasible. For instance, Nasa is researching how to make fuel on the surface of Mars to bring a rocket safely home.

Would anyone want to live there? Or even visit it?

To hear Nasa describe Mars, it sounds the last word in exotic tourist destinations. "Close up, Mars is stunning: clouds hovering above lava-draped volcanoes; nearly endless chasms, their depths lost in mist; towering ice cliff striped with red..."

And some pundits, such as the British science fiction writer Arthur C Clarke, are convinced there could ultimately be a human colony on Mars.

But it is hard to believe that anyone would go there for fun. It is a desolate place with winds of 150 miles per hour, violent dust storms and temperatures of as low as minus 220°C.

Vanessa Houlder

Web Site of the Week, Page 13

The Monday Profile: Bill Browder

Russia's true believer

Bill Browder, who may well have been the world's most successful fund manager over the past year, is the seeming embodiment of contrarianism – that most vital of an investor's values.

In his youth, Browder might have been expected to pursue the radical causes of his grandfather, Earl, a former general secretary of the American Communist Party, who was educated in Stalin's Russia and twice ran for US president.

Not a bit of it. After embracing the free market creed at the University of Chicago, Browder entered the citadels of capitalism by working as a management consultant, investment banker, and fund manager.

He may have followed in his grandfather's footsteps by moving to Russia last year but it was as a disciple of a very different faith. Browder was convinced there were fortunes to be made from Russia's return to the market.

Resisting expectation once again, Browder raised $25m (£14.7m) from private foreign investors and plunged into the Russian stock market in April 1996 – just as everyone else was pulling out, fearing a Communist candidate would win the forthcoming presidential elections.

The reward for such boldness has been a staggering 725 per cent return on the initial capital. As a result, his fund, Hermitage, tops just about every performance table, pulling in a flood of new investor money. Hermitage's total net asset value had swollen to $722m as of July 4.

While recounting his personal history, the earnest, 33-year-old Browder betrays barely a flicker of emotion although his family has evidently endured a lot. In matter-of-fact tones he tells how his grandfather started fighting for workers' rights in his home town of Wichita, Kansas, but was subsequently expelled from the Communist party for his "revisionism".

Bill's father, born in Russia, also saw his career as a mathematician temporarily blighted by the suspicions provoked by the McCarthy anti-Communist witch hunt in the 1950s.

But the dispassionate Browder's eyes light up when talking about the prospects for the Russian equity market. He says the secret of his success has been his ability to make money on simple "information arbitrage".

While at the University of Chicago, Browder says he imbibed the "efficient markets" theory, which says that investors invariably discount all public information, thus creating a fair price for every asset. That makes it extremely difficult for any individual investor consistently to beat the collective wisdom of the market.

But Browder argues Russia's greatest attraction for him is what most other investors regard as its greatest frustration: the very lack of reliable information.

"Here information is so obtuse and difficult to obtain that you can have good information to yourself, not because you are an insider but simply because you bother to ask someone the right question," he says.

Browder says he was first struck by the incredible investment opportunities in Russia while working as an investment banker for Salomon Brothers. After joining the bank in 1992, Browder was given "the booby prize" of Russia and sent to the port of Murmansk to advise on a company privatisation.

Browder recalls the company owned 100 ships with an average age of seven years and a historic cost of $10m to $20m apiece. But during Russia's mass privatisation programme, the company's management quite legally obtained a 51 per cent shareholding for $2.5m.

"That was when I decided there was more money to be made as a fund manager rather than an investment banker," Browder jokes.

Although there is good money to be made from simply investing in Russia's biggest, best-researched, and most liquid stocks – the overall market is up more than 140 per cent this year – Browder believes the very best returns come from backing smaller, lesser-known companies.

"The really huge money gets made when you find a second, third, or fourth tier company out there which later gets recognised by the market. Then you are talking returns of 500 to 1,000 per cent," he says.

The obvious doubt about his strategy is that he is swallowing far higher risk than other investors and may get stuck with investments he may never be able to sell if things turn sour.

But Browder believes his approach is far less risky than that adopted by other emerging markets funds, which only invest in the few giant companies accounting for the bulk of the market's total capitalisation. These companies' share prices are determined by fickle flows of funds more than underlying concepts of value. If you can buy a lesser-known company's stock at book value or preferred shares that pay out as much as they cost the risk is far more limited, he argues.

"Bill has been extremely smart and had that most precious skill of any investor: being in exactly the right place at the right time," says one of his former colleagues.

"But it is only in a bear market that we will see whether he owes more to luck or judgment."

John Thornhill

Peter Norman · Economic Notebook

The worst may soon be over

Official data tends to underestimate Germany's inward investment

When looking at economies, it helps to remember that it is always darkest before the dawn.

Germany could be a case in point. It was announced last week that unemployment reached a new seasonally adjusted high of 4.37m in June. Yet while there is little hope of job creation in the short term – and still less reason to believe that Chancellor Helmut Kohl's government will solve the nation's structural problems before the September 1998 general election – the worst of the present economic cycle could be over.

Some recent developments in the key area of inward investment indicate a moderate contrarian interest in Germany despite its reputation for high costs and rigid labour practices.

Unfortunately, Germany's figures on cross-border investments are a statistical mess that give conflicting insights on this issue.

Late in May, Bonn policymakers were thrown into shock when the economics ministry reported that net direct investment from abroad had fallen to just DM1.1bn (£370m) last year. This record low was DM17bn down on the previous year and well below the net DM38.8bn of German direct investments abroad in 1996.

But just as Günter Rexrodt, the economics minister, was citing last year's slump in inward investment as evidence of the need to make Germany more attractive for foreign investors, it was announced that Roche, the Swiss drugs group, had bought Boehringer-Mannheim, a German diagnostics and pharmaceuticals company, for $11bn.

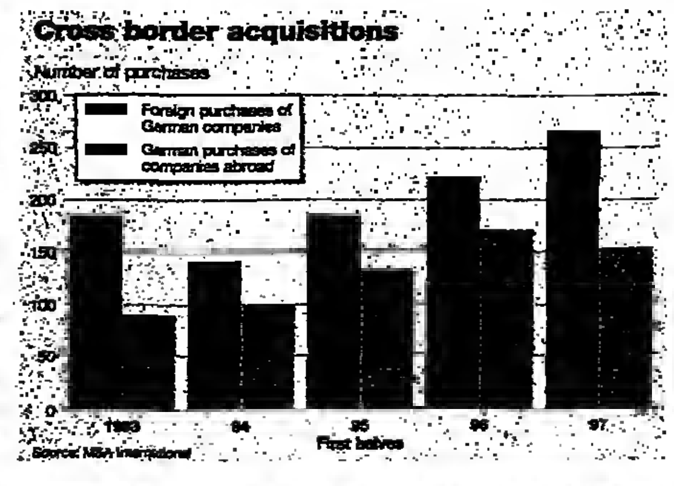
Roche's DM19bn investment in the Mannheim-based company will not figure in Germany's statistics for inward investment in 1997 when these are published by Rexrodt's ministry in a year's time, however. This is because Roche has acquired Boehringer-Mannheim by buying the Bermuda-based holding company which owned the German company. If the deal appears in any economics ministry statistics, it will be as a Swiss investment in Bermuda.

The Boehringer-Mannheim case shows how misleading cross-border investment figures can be. In fact, May turned out to be a bumper month for confusing figures on investment. Using other figures based on stocks of investment, the Bundesbank showed that the value of foreign direct investment in Germany had risen by DM31.8bn to DM232.3bn between the end of 1993 and the end of 1995.

Just 10 days later, the economics ministry's flow-based figures for that period, drawn from balance of payments statistics, indicated a net increase of DM39.3bn.

Adding to the muddle, another Bundesbank study concluded that trans-border investments into and out of Germany have been understated over the long term.

Looking at direct investment in Germany from 18 industrialised members of the Organisation for Economic Co-operation and Development, the central bank found that German balance of payments statistics showed net investment of only DM34.6bn between 1984 and 1994 while the comparable statistics produced by the 18 OECD countries pointed to a net inflow of DM137.2bn in the same period.



Faced with such conflicting official data, it is necessary to turn to unofficial sources. And here there is some evidence to suggest growing foreign investor interest in Germany.

According to M&A International, a consultancy based in Königstein near Frankfurt, acquisitions of German companies by foreign investors jumped to 267 in the first half of this year from 223 in the same period of 1996. Inward investment was the only growth area in the mergers and acquisitions business in terms of the number of transactions. Takeovers within Germany and of foreign companies by German companies fell in the first half compared with the year before.

A look at recent press reports shows that some deals have been substantial. The French Intermarché retail group gained control of the Spar chain of grocers while the Beton Group of the Netherlands acquired Wayss & Freytag, a Frankfurt building company.

The past half year also saw a foreign power company gain a toe-hold in Germany when Southern Company of Atlanta, US, became part owner of Bewag, the Berlin electricity generator, in a consortium with two German utilities.

There are grounds for expecting the present increase in inward investment to continue. The comparatively low value of the D-Mark at DM3 to the British pound and around DM1.75 to the dollar provides an incentive for British and US investors to buy into Germany companies.

According to Arno Burckhardt, managing director of M&A International, US investors bought 108 German companies in the first half of this year, up from 60 the year before, while UK companies nearly doubled their acquisitions in Germany to 42 from 23.

Many of Germany's family-owned companies are looking for new owners as the present generation of entrepreneurs reaches retirement age.

However, Burckhardt points out that most foreign corporate investments in Germany are still modest compared with the huge spending abroad by German-based chemical, motor, electronic and banking groups in recent years.

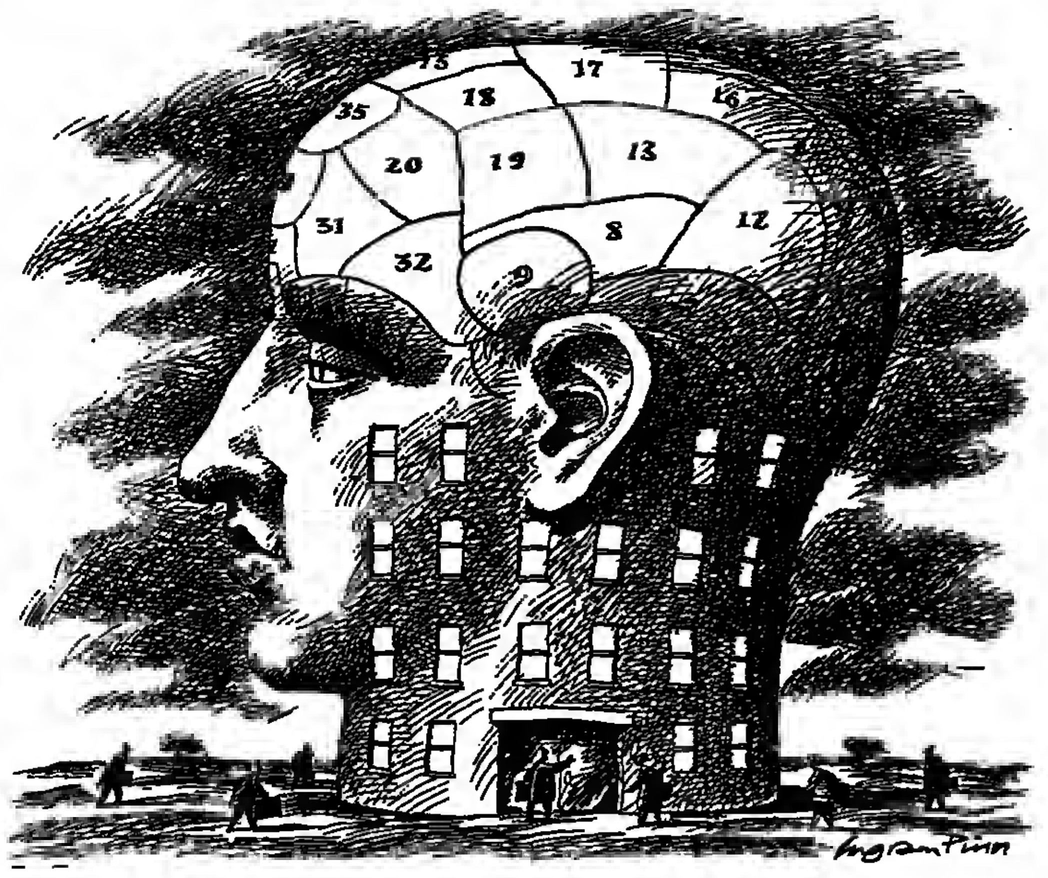
The complaint, frequently made by Theo Waigel, Germany's finance minister, and others, that foreign investors are "making a detour" around Germany is still valid.

So the message from Bonn and the Bundesbank is that Germany must press ahead with reforming its tax and benefit system and making its labour market more flexible before its economy stages a broad-based recovery.

If Germany manages to restructure itself, the outlook could be bright. Reporting last week on the provisional results of a huge survey of 2,500 economists and scientists, Jürgen Rüttgers, Bonn's research and technology minister, said 61 per cent were convinced that Germany could again become a "very attractive" place for international investment provided the necessary reforms were implemented with determination.

The high price of know how

Effective knowledge management depends on harnessing expertise, reports Vanessa Houlder



Knowledge management is becoming one of the most fashionable management themes of the decade. Companies are attempting to create, share and store their employees' expertise in an effort to stimulate innovation and offset the damaging effects of downsizing and greater job mobility.

Many organisations are acutely aware that they do not know what they know. Knowledge is dispersed in databases, filing cabinets and people's heads. Work – and mistakes – are repeated simply because there is no way to keep track of, and make use of, knowledge in other parts of the organisation.

But although there is widespread recognition of the importance of knowledge management, discussions about it often get bogged down in philosophical abstractions. Hands-on experience of knowledge management is difficult to find. Few "knowledge managers" – the new breed of senior managers who are taking on responsibility for managing knowledge – are entirely confident about predicting the practical and financial benefits of their work.

Even the leading practitioners are still feeling their way, says Gordon Petrash, global director of intellectual asset and capital management at Dow Chemical Company, one of the pioneers in the field.

"The perceived leadership [of companies like Dow] does not amount to very much," he told a knowledge management conference recently, organised by the International Centre for Business Information, the conference group, and sponsored by Arthur Andersen, the accountants and consultants.

However, its knowledge management programme has already found savings of $40m (£25m) from a full analysis of the 29,000 patents in its portfolio and is set to increase licensing revennes five-fold to $125m by 2000.

Part of the difficulty in evaluating the success of knowledge management is that, for all its apparent novelty, many of the tools it uses – henchmarking, teamworking, training, innovation and networking – have been around for years.

"I have discovered that I have been speaking knowledge for many years because I have been talking innovation," says Dorothy Leonard, a professor at Harvard University. She points out that rapid innovation often depends on an ability to adapt technology and know-how that already exists within the business.

Many of the genuinely novel aspects of knowledge management have heen achieved through advances in computing technology, such as videoconferencing, the internet and intranets (company-wide computer networks).

Arthur Andersen, for example, uses a computer network to spread information around its staff about best practices, contacts within the organisation and case studies. As well as this information, which is vetted and filtered, it has a second system on which it encourages its staff to post anything that they think is useful.

Terry Finerty, partner of knowledge services, says that the system "is now a powerful and useful tool for us". But he notes that an earlier effort to codify and share best practices around the firm – which it did in the form of a CD-Rom – failed. "We touted it as something big. It didn't add much value. There was a huge rejection from everyone who had the big sales build-np," he says.

He warns against putting too much emphasis on the technology used for the knowledge management programme. "IT tends to be more of an enabler than the key," he says. This view is widely shared. For example, Victoria Ward, chief knowledge officer at NatWest Markets, says: "We started off thinking it was a technical subject. We realised it was a means to the end".

One reason why there is a limit to the effectiveness of IT-based knowledge sharing eystems is that some of the most useful knowledge within an organisation cannot be codified or even made explicit. This "tacit" knowledge may range from the practical understanding of how a process works to cultural issues. Organisetions have unspoken rules, taboos and hierarchies that can be compared with those of a primitive society, according to François Escher, a former cultural anthropologist who is now the organisational development and learning director of AT&T.

Dealing with tacit knowledge is difficult, bnt vital. "Knowledge that is highly coded is easily transferred – and therefore may be of little strategic value," says Leonard. "Tacit knowledge is harder to transfer but is likely to be an important element in a core capability."

Organisations in which people have large numbers of personal contacts often find it easiest to share tacit knowledge. Peter Scott-Morgan, worldwide director of learning at Arthur D Little, management consultancy, says that consultants share tacit knowledge through constant on-the-job coaching and networking on different assignments.

But why should managers co-operate with knowledge management initiatives? For many people, there is little motivation to do this, since their status as experts is based on their possession of knowledge which other people lack.

Managers may also be discouraged hy the perception that knowledge management is yet another passing trend. Kaisa Kautto-Koivula, head of knowledge management development at Nokie Telecommunications, reports considerable resistance from middle managers, who think that knowledge management is a new "ism" or fad to take the place of business process re-engineering.

"They want time to get on with their work," she says.

"'Why should I?' is a very valid question", says Elizabeth Lank, programme director, knowledge management of ICL, the computing company. She is in charge of the recently launched initiative, called Project VIC, which is an acronym for "valuing ICL knowledge".

Despite some early successes with the project, she is aware of a litany of reasons why people are relnctant to become involved. They incinde the view that "my employability depends on my knowledge", a resistance to ideas that were "not invented here" and e feeling that contributing and documenting knowledge would take too much time.

Lank thinks that there is a need for a new psychological contract between employer and employee, in which employees are required to contribute to their company's knowledge capital.

Despite all the obstacles and costs associated with knowledge management, she argues that companies cannot afford to neglect the expertise within them. "Managing knowledge is expensive but the cost of not managing knowledge is enormous," she says.

Xerox makes copies

Even enthusiasts often find it hard to quantify the benefits of knowledge management. Rank Xerox is an exception. It believes it saved $200m (£125m) from a single project that uncovered and shared expertise across the group.

An internal henchmarking study showed that its Austrian suhsidiary was unusually snccessful at persuading customers to renew their contracts. By sharing the Austrian approach with other groups, it was able to raise 70 per cent of its other units up to Austrian standards in three months.

Lyndon Haddon, chairman of Rank Xerox (UK), draws a number of conclusions from its experience. One was the importance of establisbing exactly what knowledge was worth transferring. "We found that in the past we had not necessarily transferred the best practices," he says.

This conclusion makes him enthnsiastic abont internal benchmarking, in which the company compares the performance of its own business units. "A lot of companies put most of their focus on external benchmarks. What happens is that the best units get better and better, but nothing happens to the average," he says.

Motivating the high-performing business units to share their knowledge may be difficult. Haddon estimates that it takes three times as much work to teach a process, as to learn it.

Moreover, it should not he assumed that people necessarily want to learn from a rival business unit. People may be too busy, insufficiently motivated and resentful of the suggestion that their job is done better elsewhere. Yet if business units are forced to transfer and receive knowledge, the head office risks being considered heavy-handed.

The compromise adopted by Rank Xerox was to identify a handful of best practices and allow business units to choose which they wanted to adopt. The company tried to prevent managers feeling overburdened or resentful, by ensuring that almost every business unit was considered the expert on one business practice or other.

Following the hest practice down to the last detail is crucial, says Haddon. Rank Xerox only allows a business to adapt a model process once it has raised its performance to the same level as the benchmark unit.

This emphasises a recurring theme in knowledge management, namely the difficulty of pinning down exactly what makes a particular approach work. "We lost a lot of best practices because people edited them before implementing them," says Haddon.

VH

Glatsher (left) and Mason-Hornby: "everything seems to be an event"

PARTNERS

Marquees over London

Marquees over London was established in 1989, by Francis Mason-Hornby, 35 and John Glatsher, 33. Since then, their company has erected marquees in and around the capital, including the roof top of Liffe and the royal gardens at Highgrove. Their annual turnover is £700,000.

Francis: "John and I were sitting in a lorry, when we decided to start the business. We were both working for a Hampshire-based marquee company whose owner hated doing jobs in London, so we seized the opportunity. We'd both been to public school and left without a career plan; both had a fear of being office-bound and both just fallen into tent life. We could fill up the summer with marquees, then spend the winter being ski bums in the Alps. I see mirror images of us in the lads who work for us now.

From Derby day until the end of July, we're flat out, then again up to Christmas, but January and February are the darkest months. When the chips are down, John and I still go out there in the mud and rain and lead from the front. We have eight teams working every day and we still turn away business.

In the last few years the industry has grown enormously because everything seems to be an event these days. If someone is laying a foundation stone, launching a car, or even carrying out a promotion, they now need a marquee for drinks. When a company has spent multi thousands on organising an event they don't want to be at the mercy of the British weather.

Five years ago people spent less and everyone stood around getting wet. Customers are now asking about bookings for the millennium which is no problem to us. We'll happily erect a marquee before Christmas 1999 and take it down in January 2000, but I doubt anyone will want to work the night."

John: "It takes incredible diplomacy to run a marquee business which is something Franz and I have learned through trial and error. In the early days we got pushed around and ended up doing impossible jobs.

Nowadays, we simply tell the customers what they want.

People get fixations in their minds, like wanting a marquee that will attach like a roller blind from their rooftops. They then want this thing to extend to the edge of their garden 400ft away, so we have to let them down in a nice way.

One of our problems is that our customers tend to be in a high state of excitement. They might be organising a wedding, or christening and trying to co-ordinate everything from the food to the flowers.

I've known people be incredibly rude, then met them after the event and not believed I was speaking to the same person. We get a lot of repeat business, so neither of us bothers if we have to turn work down.

When I have to say, 'Sorry. You're getting a marquee not an extension of your house,' I know the job's going to be difficult.

What no one understands is that we can create a room which is not only waterproof, warm and beautifully lit, but we can do it in a day without wrecking the lawn."

Fiona Lafferty

Smile, visit the bookshop and learn how to be cool

Lucy Kellaway

I have just been sent the coolest business book ever written. At least, that is how the publisher describes *Reality Hacking*, a book which promises to change forever the way we think about ourselves and our jobs.

The accolade does nothing for me. As far as I am concerned, business is not cool. It never will be and should not even try. Music can be cool, fashion cool, people cool. The current universe of cool (according to a colleague who knows abont these things) includes Prada wedge-soled shoes, Hoxton art galleries, experimental dance music and Iceland.

Business does not come into it. Business is about providing employment, creating wealth, producing things that people want to buy. It can be described as essential, worthwhile, stimulating, even thrilling at times. Doubtless, there are business men and women who are cool, but I am racking my brains and so far I have come up with no names at all.

However, in the US, especially on the west coast, things seem to be otherwise. A new business magazine, Fast Company, has deliberately pitched itself at a cool business audience, and so far its market appears to be large and growing. Visitors to its web site are told: "Fast Company's mission is to define the new world of business... It serves as a handbook for the business revolution... It's both a resource and a mentor..." They are invited to visit the "Fast Company Community", which is "A meeting place for revolutionaries and change agents. Find out you are not alone." But I visited, read the enthusiastic gush from readers, and felt very alone. This kind of thing does not survive the journey across the Atlantic.

Reality Hacking would not be remotely odd if it were a US import. But it is aimed at the British market. And it is hard to see the average British manager being impressed by the fact that author, Nicola Phillips, has dispensed with chapters and instead has ordered the book into six "key sections". The hook has no beginning and no end – yon just hang loose and read it however you like. Taking her advice and dipping in at random, I found myself advised to write with my left hand, smile at people I don't know, or spend days in bookshops.

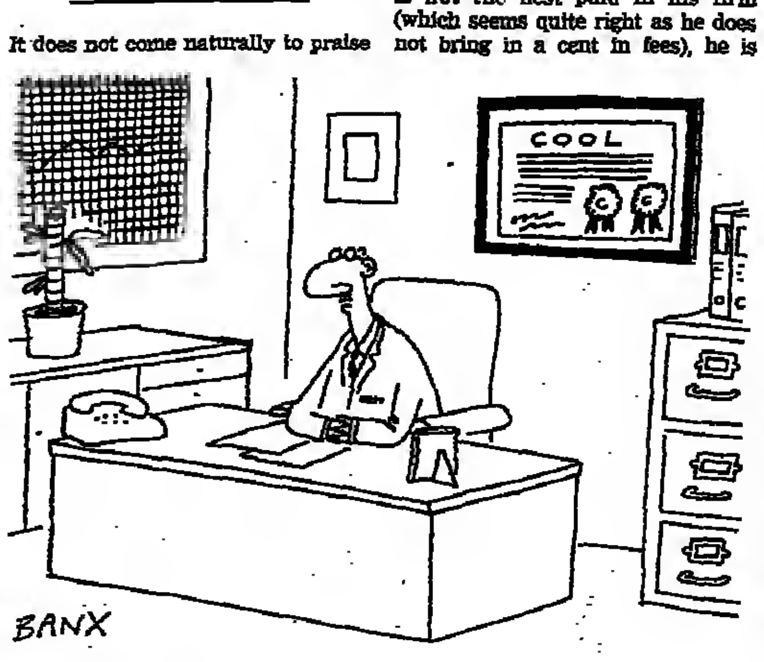
This is not my idea of cool. Neither is it my idea of business.

It does not come naturally to praise management consultants. But I have to admit to feeling some admiration for Brian Dickie, head of Booz Allen, after reading an interview with him in the FT last week. I had never heard of him until I opened the paper – but that is just the point. Dickie might be top dog at Booz Allen, but he does not seem to think that entitles him to lord it over everyone else. Management, he says lightly, is just one of the jobs that has to be done. And for the time being he happens to be doing it. He is not the hest paid in his firm (which seems quite right as he does not bring in a cent in fees), he is simply taking his turn at running the shop and trying to do it as hest he can.

This set-up is ideal for a partnership. But I do not see why it should not be copied elsewhere. In every company it is equally true that management is one of many tasks that needs doing. There is no reason why this joh should he revered and rewarded ahove all other tasks. Moreover, it seems a good idea to let people move in and out of management jobs. This makes bosses more human, keeps them in touch and hinds the whole organisation more closely together.

If work structures really were flat and if employees really were organised in teams then this view of management would follow naturally. But in fact this is far from the case. However much companies talk about egalitarian work teams, the reality in most places is that the top manager is the hero. Last week's survey showing that chief execs get paid twice as much other directors proved the point.

Doubtless there are problems in applying the partnership model more broadly. But problems are what management consultants are supposed to be good at. So why don't they give all those fads a rest for a bit and instead try preaching what they themselves practise?



Here is further evidence of the cynical way in which most organisations practise teamwork. One of the main Whitehall departments used to run a course called "Getting the most out of junior staff". One of the juniors objected to the title, and now the course has been renamed "Succeeding with teams". The content, needless to say, is identical. But no one is complaining any more, and, hey presto! the department can now claim to have teams.

Victoria Griffith on a 'heart hunter's' attempt to recreate the bond between company and worker

Prophet of family values

For Mark Albion, one of Harvard Business School's most prominent professors in the 1980s, the revelation came years ago when he asked his students to identify their top career priority. "They all said their main goal was to make lots of money," says Albion. "I thought 'All I'm doing is helping people who were going to make a lot of money anyway make even more'." Albion handed in his resignation.

Nearly a decade later, Albion has returned to business school campuses, this time as an outsider with a mission to bring deeper meaning to the lives of MBA students. In March, he launched the head-hunting firm You & Co, whose onusual aim is to match business school graduates searching for a better balance between work and home life with companies looking for more loyal employees.

You & Co is the continuation of an odyssey that began when Albion founded Students for Responsible Business (SRB) in 1993. SRB is a network of business students and alumni that works to promote corporate social responsibility. To Albion, an important part of that mandate is ensuring employees have more time to spend with their families.

US workers, Albion argues, are living through a dark age, viewed as mere commodities by narrow-minded corporations. The result is a breakdown in trust. "MBA's think 'This company might get rid of me some day anyway, so as soon as I get some experience, I'll jump ship for more money,'" says the former professor. "And the company is thinking 'This person's probably going to leave, so we may as well milk him for all he's worth'. That's not a healthy way to do business."

You & Co, which Albion insists on calling a "heart-hunter" not a head-hunter, is looking to buck the trend by forging a life-long contract between a corporation and its managers. "It used to be that if someone left IBM, Thomas Watson Junior (then CEO) would fly in and ask why," says Albion. "I mean, no one ever left IBM. We want to recreate that bond between the company and its workers."

To make sure his recruits know what they want, Albion is looking for MBA graduates who have been out of school for about five years. He vets companies by spending time observing their managers. "One thing I do is look at the CEO," he says. "If he's working 100 hours a week, I don't care what kind of rhetoric they have about work-family balance. Managers there will be valued for the amount of time they put in."

Albion feels so strongly about the loyalty issue that he says he will never place a candidate more than once. For companies, he believes, it's a cost issue. "I know one corporation that put $800,000 (£450,000) into training a promising manager that left," he explains.

Cutting down on working hours is no simple task, Albion admits. One significant problem is the lack of efficient productivity measures for managers. Because assessment techniques are so weak, corporations end up using total hours worked as a way to monitor performance. "As we all know, yon can put in a long day at the office and get nothing done," says Albion.

Albion is no radical. He believes that many countries – particularly Denmark and Sweden – have gone too far in providing time off for employees. He admits to getting to work at 5:00am some mornings, and to working through weekends.

"But you have to realise what the working conditions are out there right now for a lot of MBAs," says Albion. "We're looking et executives who feel awkward about taking two weeks off each year. Naw fathers are expected to he back at work the day after their child is born. There's something wrong here."

The employment contract works both ways, Albion warns. MBAs who opt for more time to themselves may not get a new Porsche or yacht, but a growing number of executives appear willing to give that up. "They may go for the status for a few years, then realise there's not much behind it," says Albion. "And then they'll be looking for a deeper meaning to their career and life. After all, that's what happened to me."

Frank Rapp

Mark Albion believes managers should forge a lifelong contract with employers

NEWS FROM CAMPUS

Short course for upwardly mobile

If you do not have the time or the qualifications to study for an MBA degree then IMD, in Lausanne, is planning a 17-day course which could give you the basics of effective management.

Intended for high-flying 27- or 30-year-olds the course, *Building on Talent*, comprises two modules with a project between the two. The first course is in November.

IMD: Switzerland, 21 6180111

Auckland folk get their MBA

The University of Otago, in New Zealand, is launching its part-time executive MBA programme in Auckland. The two-year programme concentrates on general management, strategy and managing in an international context.

The programme will be limited to 25 students and begin with a week-long orientation at the university's central campus in Dunedin.

University of Otago: New Zealand, 3 4798045

Linking IT and management

One of the most important developments in management over recent years has been the emergence of information technology as a strategic resource. With this in mind, the University of Bath school of management, in the UK, is launching an MSc in *Management and strategic information systems*.

The course is open to those who do not have a business or computer science background.

University of Bath: UK, (0)1225 826957

Dean Berry: obituary

Dean Berry, senior partner and senior vice-president at Gemini Consulting and former Dean at Insead, in Fontainebleau, died in Oman, Jordan, on July 1.

During a distinguished business school career Berry held senior positions at all the most prestigious schools, including Harvard, Yale, Wharton, Michigan and London.

Gemini: UK, (0)171 340 3000

ADVERTISING

Consumer revolution

James Harding on the risks and rewards of marketing western goods in China

If you are ever in any doubt that China is in the throes of a consumer revolution, take a walk down Nanjing Road.

Shanghai's premier shopping street has been carved in two by Pepsi and Coca-Cola, who have commandeered every lamppost to hang neon advertisements for their soft drinks.

Buses are plastered with ads for haircare products from Unilever and Procter & Gamble, who have also gobbled up hoardings, bus shelters and rooftops across the city.

"It is a chaotic outdoor media environment. Essentially, everything, everywhere is for sale," says Soames Hines, former managing director of J. Walter Thompsoo in Shanghai, the largest advertising agency in China.

But behind the advertising bonanza lie some awkward challeoges – and Hines, who oversaw JWT's rapid expansion during his four years at the helm in Shanghai, knows how "the marketer's dream in China can quickly become a nightmare".

The scramble for the Chinese consumer has prompted an explosion in advertising.

In Shanghai spending on advertising multiplied 16 times between 1990 and 1994. China's advertising spend, valued at Yn45bn (£3.2bn) last year, is forecast to grow to Yn200bn by 2000.

Nevertheless, Hines puts advertising in its place. Most international companies in China "are pushing packaged goods when their first concern should be getting a decent distribution system in place", he says.

Pricing, too, is critical. Customers, generally on monthly incomes of around $100 (£59), remain highly price sensitive.

Nor is the nature of the advertisement the determining factor, in Hines' judgment: "Everyone likes to think that there is some mystiqne about China, but the Chinese consumer actually behaves much like any other. The key to getting it right is the advertising strategy, not the execution of the advertising."

By this he means primarily understanding the needs of the market, and cites the example of S.C. Johnson's Toilet Duck.

Toilet Duck, with its hooked neck designed to reach beneath the toilet's rim, positions itself in developed markets as a more convenient way to clean parts other products cannot reach. It was planned to launch in China with a Hong Kong advertisement that stressed these benefits.

However, even those Chinese who have modern toilets tend to use washing up water to clean them and so the Toilet Duck proposition would have been wasted. S.C. Johnson did some market research and "avoided a very expensive mistake".

Hines, who left China last month, has been "consistently amazed" at how companies fail to spend time and money to understand the market and before launching inappropriate products.

Given that China's increasingly sophisticated consumers are leapfrogging conventional product cycles – jumping from no telephone to a cellular phone – he sees little point in bringing to China anything other than the most up-to-date product.

Companies must also be prepared to tailor, or be seen to tailor, their products to Chinese tastes.

Once the strategy is in place, though, advertising can quickly build a brand's reputation. The ad needs to be lively, entertaining and "impactful". JWT China calculates that the average person in Shanghai watches 650 commercials a week, double the number in the UK and more than anywhere else in Europe.

A commercial break tends to be 10-15 minutes long, but some last half an hour and include 100 advertisements, says Hines. Clients must be prepared to pay more for less air time, as media inflation is forecast to run at 25 per cent per year to 2000.

Advertising content naturally depends on the product, but Hines offers a few guiding principles. Young people are not cynical, but optimistic, he says, counting themselves the lucky generation that knows they will be more prosperous than their parents.

Despite modernisation, there is a fondness for what are perceived to be Chinese traditions, making family values a powerful selling point even among the young. The only categorical advice is not to press an international brand's superiority over its Chinese counterpart: "Consumers know the international product is better, but don't want a foreigner rubbing it in."

If would-be advertisers have a difficult route to navigate in China, then so too do agencies.

JWT has been losing money in China. The rise in revenue from Yn4m in 1992 to Yn45m has been outstripped by the increase in costs driven by the expansion in personnel over the same period from 10 to 125 people, including a large proportion of expensive expats.

Hines expects the agency to break even in Shanghai this year, but doggedly defends the losses as part of the investment in people that will ultimately determine the success or otherwise of any agency in China.

Not all agencies agree with Hines. They say agencies can expand organically in line with billings, thereby remaining profitable. The hiring of expats is also controversial – some suggest it cultivates international clients, but deters the growing numbers of potential Chinese clients.

Hines has been succeeded by David Ma from Taiwan, who has been brought in to ensure profitability and cultivate local customers.


Nanjing Road: Shanghai's premier shopping street

Chris Powell · Ad Lib

Battle for the chairman's ear

Advertising agencies have been casting envious glances at management consultancies lately. Consultancies, agencies believe, deal at the top level with clients and in return earn top dollar for their reports. Agencies feel they have been allowed to slip down the corporate pecking order and as a result do not get the rewards they deserve for their strategic recommendations.

In the search for a solution, there is some harking back to a supposed golden age when agencies whispered into the ear of the chairman, were central to corporate direction and got well paid for their efforts.

I'm so old I can remember this age, because, although it started in the 1950s, it teetered on into the 1960s. Marketing was something new and wonderful and, pretty much, only Proctor & Gamble among companies knew about it.

But agencies knew about it and led their clients into this new way of thinking. Clients got rich from new brands – Bates helped G B Britton create Tuf shoes, famously Masius Wynne-Williams helped Showerings turn a product idea into Babycham (and Jack Wynne-Williams received a white Roller by way of a thank you). Early on, for many clients, agencies *were* their marketing departments.

Of course, those days will never return. Not only do clients understand marketing but the whole industry of marketing and communications has broadened and deepened. In doing so it has fragmented into all sorts of specialists and consultancies.

The business of advertising agencies is advertising, so getting back to a top table by marketing when surrounded by skilled specialists is not on. How, though can agencies hope to grapple their way back to the top?

In a global sense there's nothing useful agencies can do about it. If advertising isn't important to a company then that's probably the fact of the matter and protestations won't change a thing – I can't see advertising achieving top status at an ICI or British Energy.

Indeed, even large billings shouldn't deceive us. One British company spending well over £100m a year on advertising declined the opportunity to join a top advertising forum on the grounds that advertising was not sufficiently central to its fortunes. Indeed it wasn't – the company makes profits in the billions that are probably only slightly dependent on advertising.

The agencies' trade association, the IPA, is doing much useful work. It campaigns to raise the visibility of the largely unseen strategic work that arises through the process of getting to a campaign that does the business. Awards, city presentations, seminars are all aimed at getting top management to see beyond the ad itself.

There are two forces working in favour of advertising's corporate status. The growth of the company brand brings advertising back to the attention of the chairman (for the first time I can remember since the 1960s we were recently asked to present a recent campaign to a client's non-executive directors).

> Their stock in trade is putting things from a consumer point of view and in consumer language

This approach to branding is a growth industry, partly because new advertisers tend not to be the traditional brands, but corporations where product and company are indistinguishable – fuel and telecoms are examples of this. It is also growing as rising costs force the traditional branders to consolidate in order to achieve impact in the market.

As a result decisions rise from brand manager level to nearer the top. Cadbury's recent corporate campaign is an example.

Another opportunity is produced, paradoxically, by the sheer fragmentation of our trade. No ooe is skilled at buying across the range, there is a shortage of experience and so adviee as how to go about it. This is a role for agencies but none of us has yet worked out how best to do it, not least as no one is qualified to give informed and impartial help as yet.

It will be good for advertisers as well as agencies if agency skills are recognised at top level. Advertising agencies have a rare intimacy with the consumer. They have to in order to grapple with the issue of what the advertising should say and because their stock in trade is putting things from a consumer point of view and in consumer language.

And agencies do it for real. They don't do it as an academic exercise or as part of an analytical recommendation, but through the process of testing to get to a stance and an expression that works in the market place.

This voice of consumer reality needs to be heard in boardrooms, beyond the ads themselves.

Chris Powell is chief executive of BMP DDB

TELEVISION

See you after the break

Changes are needed at ITV, Tim Wootton tells Raymond Snoddy

Tim Wootton, who has just completed 27 years selling television advertising for ITV, has one simple and direct piece of advice for Richard Eyre, the incoming chief executive of ITV: "He must be strong-minded enough to walk if there is any interference from the apparatchiks of the ITV system".

The man who was the joint founder of ITV's first stand-alone advertising sales house, TSMS, and was until the end of last month its chairman, adds that Eyre should be judged not on internal politics but on whether ITV is a success or not – and that over a reasonable period.

At the end of last month Wootton retired from TSMS, a millionaire at the age of 49, and crossed the street to the other side of the advertising business to be non-executive chairman of Zenith Media UK, the large advertising space buying house. He will also chair Lambie-Nairn, the design company responsible for BBC 2's many "idents" between programmes.

Speaking just before the announcement of Eyre's appointment, Wootton, who joined Anglia Television in 1970 as an advertising sales rep for Lincolnshire, said that a number of significant changes were necessary if ITV was not to be increasingly marginalised.

The first was that "a strong, tough chief executive comes in from outside the ITV system who has the mandate to do the job that is needed at the centre".

Wootton believes that Eyre, at the moment group chief executive of Capital Radio, is the right man to try to end the long tradition of squabbling among the large ITV companies.

Just as important, although it will take longer to implement, Wootton believes it is necessary in the increasingly competitive UK broadcasting market for ITV advertising to be sold as a single network.

Until 1989 there were 14 separate selling points for ITV as each company had their own advertising sales team.

It was then that TSMS was set up, initially to represent Anglia and Central. At the time Wootton was the sales director of Anglia and Dick Emery, now a senior executive in BBC Worldwide, the Corporation's commercial arm, was sales director of Central.

The two ITV companies each held a 40 per cent stake in the new venture and Wootton and Emery had 10 per cent each.


Tim Wootton

Wootton had first explored the idea with John Perriss of Saatchi & Saatchi on a plane coming back from an advertising conference in Spain while "nursing black coffees and hangovers".

"It may have been my idea but I could never have done it without Dick. He was the one with the ability to organise and put things together. We were a very good partnership," says Wootton.

TSMS, which successfully represented smaller companies such as Ulster and Grampian, became the pattern for selling ITV advertising. Now three sales houses represent all of ITV: TSMS, owned by United News and Media; Laser, owned by the Granada Group; and Carlton, which sells advertising for the Carlton Television and the other Carlton ITV franchises.

Further consolidation of ITV sales houses is at the moment prevented on competition grounds by organisations such as the Office of Fair Trading.

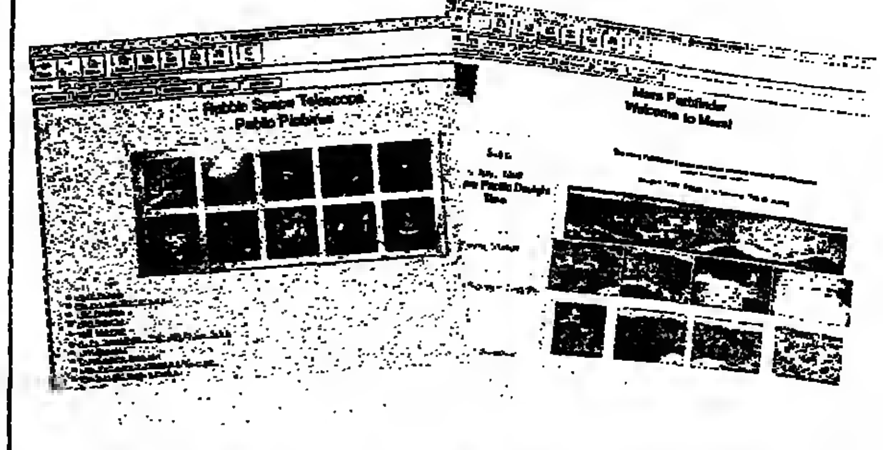
"I hope that over a period of time we move towards the situation where one selling point is acceptable. I think certain large advertisers are prepared to consider it now," says Wootton, who believes the prize for advertisers would be helping ITV to continue to assemble the largest mass audience in the country.

Wootton would also like ITV increasingly to remember "who pays the money, and listen to the customers – the advertisers".

Unless such action is taken he believes that although ITV will still be the biggest channel in the multi-channel world "it will be marginalised far more than it need be".

Stephen McGookin · Web Site of the Week

Pathfinder extends the boundaries



Since its inception, the internet has been the perfect vehicle for discussing space travel and the possibility of life elsewhere in the universe.

And since last week, net users have had the opportunity to see for themselves what the surface of another planet actually looks like.

Amid cheers from the project team at the Jet Propulsion Laboratory in California as the Pathfinder probe bounced on to the surface of Mars on July 4, the net community was gearing itself up for the first images of the Martian environment.

It hasn't been disappointed. Scientists showed the first black-and-white 360-degree view of the probe's landing site last Saturday, and immediately put it up on the main project site (*www.jpl.nasa.gov*).

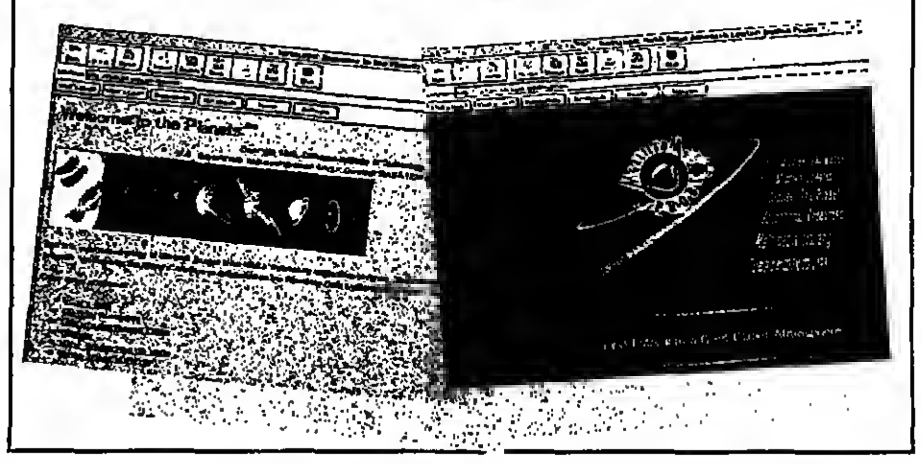
Nasa's commitment to the internet has been admirable. It made the decision early on to make the photographic material available through its various sites (*www.nasa.gov*) just as quickly as to other media.

Coverage of Pathfinder's mission has quickly become the biggest internet event in the medium's history, racking up more than a 100m visitors in the first four days.

The sheer volume of traffic has made it necessary to set up a series of "mirror" sites – which carry the same content as the main Nasa site but which spread the load in terms of hits – in conjunction with corporate partners such as Silicon Graphics, Digital, Sun Microsystems and CompuServe.

There are also several academic mirror sites throughout the world, and a central page (*http://mars.sgi.com*) where users can go straight to the site nearest their geographical location to save download time.

The Jet Propulsion Lab site charts incoming data from the probe, with daily Martian weather maps and a bank of images of the Martian surface. There are downloadable animations of parts of the mission so far, with plans for a VRML (virtual reality) model of the Sojourner rover vehicle's viewpoint.



ADVERTISING

Speeding cars hit the limit

A record number of complaints concerning speed in UK car ads has been received by the Advertising Standards Authority.

In the past six months, 34 complaints have been received about advertisements and mailings that focus on speed. Last year there were just 16 complaints about speed.

Among manufacturers to have had complaints upheld against them recently are Citroen and Chrysler. Both ads were withdrawn at the ASA's request.

Citroen's ad for the Saxo VTS featured a car with its fog lights on, travelling against a blurred background. The copy read: "New 1.6 litre 16-valve engine. 0-60 mph in 7.2 seconds. Max speed 127 mph. The feel-good factor is back. With a vengeance."

The advertiser denied that it showed the car travelling at high speed and said the background was blurred simply because the car was moving.

The Code of Advertising Practice in Britain outlaws any ad that "portrays speed in a way that might encourage motorists to drive irresponsibly or break the law". The UK allows a top speed on motorways of 70mph while on US freeways the limit tends to be 65mph.

The code says that while speed and acceleration are legitimate marketing platforms, they should not be the "predominant message". Car marketing should not encourage anti-social behaviour, it adds.

An ad by Chrysler Jeep Imports UK also used a photograph of a car against a blurred background.

Headlined "Americans don't just want it all. They want it fast," the ad went on: "The new Chrysler Neon LX; a car designed to respond immediately when you put your foot down."

The advertisers said the blurred background was intended to give a sense of movement, not speed, and stressed that the copy concentrated on acceleration, without using the word "speed".

The ASA ruled that the ad's emphasis on performance in the headline was likely to "encourage an irresponsible attitude towards driving".

The ASA's latest monthly Case Report, published last week highlights its adjudication against a mailshot for the new Fiat Coupé, which stated on the envelope: "There's a straight stretch of road, just the place to really open her up and feel the awe-inspiring power..."

An enclosed brochure claimed: "It continues to thrill you as it hurtles towards a top speed of 155 mph, wherever road conditions and the law permit."

Although Fiat claimed that its reference to the law was included specifically to discourage irresponsible driving, the ASA upheld the complaint against it.

Virginia Matthews

VIDEO

Rental's final reel?

The revelation that Hollywood is mulling over plans to produce disposable digital video discs and sell them for around $5 – the price of a cinema ticket – is yet another testament to the speed at which digital technologies are rushing to market.

The first consumer DVD players and $25 film discs are not due to go into national distribution in the US until October and already the "next big thing" is waiting in the wings.

For delegates at last week's annual convention of the Video Software Dealers Association in Las Vegas, it was another unwelcome indication that the reign of analogue tape is drawing to a close.

Jeffery Eves, VSDA president, suggested his audience – representing 26,000 video stores and annual revenues of $8.5bn (£5bn) – might care to raise the issue with their Hollywood contacts.

"Because of the product's potential impact on the retail market it deserves not to be cloaked in secrecy but discussed openly with retailers who for nearly 20 years have been the studios' strategic partners in a dynamic and profitable business," he said.

Almost a quarter of US television households now have access to pay-per-view film services through their cable suppliers. In the two years since the US introduction of digital broadcasts by satellite, 5m homes have sprouted antennae receiving up to 200 television channels.

Sanford C. Bernstein, an investment firm, recently released a study which showed a 70 per cent decline in video rentals in households with a satellite service.

Specialist rental stores have also lost ground to mass-market retailers, such as Wal-Mart and Target, which have emerged as the primary outlets for the sell-through trade.

The studios, led by Walt Disney, now routinely bypass the rental trade and sell videocassettes in a market worth about $7.5bn a year at retail prices.

According to the VSDA, this strategy – which has made videos available for sale to the public at $15 apiece compared with the $70 a rental specialist must pay for the right to lease a film to the public – can offer handsome rewards.

"A blockbuster movie that might have topped out at 500,000 to 600,000 copies in the rental market can reach heights of 15m or more in the sale market," says its annual report.

The strain of change in market structure and technology is showing clearly on the video rental industry.

After slowing to a crawl in the early 1990s, revenue growth has disappeared. Sales fell in 1996 and have dropped 7 per cent in the first half of this year, a decline which has forced Blockbuster, the industry leader, to issue two profit warnings since January.

The VSDA responded last week with proposals for an industry-wide promotional campaign and a demand that studios guarantee the rental business a "window" of 60 days to exploit new tape releases before allowing pay-per-view broadcasts.

The demand – a response to grass-roots complaints and threats of boycotts against obstinate studios – is likely to get a frosty welcome.

Hollywood's attitude was spelt out in a recent commentary by Warren Lieberfarb, president of Warner Home Video and champion of the digital video disc.

"Movie revenue from satellite and digital cable is showing potential for growth," he wrote. "If revenues from pay-per-view continue to grow while revenues from packaged video decline, then studios will be tempted to shorten 'windows' and even eliminate them altogether."

Christopher Parkes

Tim Jackson · On the Web

Why talk will be cheap

How much will international phone rates in the industrial world fall over the coming three years? Ask most consumers, or most planners at telephone companies, and their answers would probably range from 20 per cent to 50 per cent.

My belief is that the figure will be closer to 85 per cent – meaning that in most countries, you will not have to pay any more for an international call than for a national one.

Three recent events lend support to this extreme prediction. One is the changes that have taken places in Israel's telephone market.

Over the past two weeks, the entry of a couple of low-cost international call providers has driven down the price of a call from Jerusalem to New York from around $1.40 (82p) to around 20 cents in a single step. It's true that one of the reasons for the extraordinary fall in price is that the Israeli government made it clear that offering low tariffs would be an important ingredient in winning a licence.

But the result has been that calls from Israel to the US are now being supplied not just below cost but also below the cost that the Israeli carriers have to pay to an American phone company for terminating the call at the other end.

Event number two is the launch last week of a new internet-based trading service known as Band-X. The company, formed by a pair of Londoners, allows phone companies to buy and sell calling capacity by the millions of minutes.

This is likely to intensify price competition among carriers for the terminating of international calls, and to dislodge many long-standing relationships between the less innovative carriers.

Event number three is a deal between RSL Communications, a fast-growing US telephone company, and Delta Three, a technology company based in Israel. Under the deal, RSL will take a majority stake in Delta Three, and will give the company access to services and facilities in its sites all over the world.

Delta Three, which has been written about in this column before, is different from most other internet telephone companies because it does not concentrate on selling to the end user.

Instead, it has gone to phone companies, offering millions of minutes of international call capacity at rates far below those of the rest of the industry. It can offer low prices because its traffic goes over data lines or over the internet, which costs much less than the infrastructure of the traditional voice network.

When I last wrote about Delta Three, an astute but cynical reader sent me an e-mail questioning whether there is any fundamental technical advantage in carrying calls over the internet.

One point is crucial: by encoding the data in packets, the internet wastes no bandwidth when the two parties are not speaking; the traditional phone network, by contrast, opens up a "circuit" from end to end which cannot be used by anyone else even if nothing is being carried along it.

But the reader was right: Delta Three's principal cost advantage comes from the fact that by using the internet it avoids the regulatory structure under which companies that send call traffic overseas have to pay the company at the other end that terminates it.

His conclusion was that Delta Three would achieve the Initial Public Offering on the Nasdaq exchange that was its aim "only if the investment bankers can move faster than the regulators".

Here lies the significance of the company's deal with RSL. By plugging into the traditional phone network, Delta Three can now go to phone companies all over the world with a simple pitch of cheap call minutes that involves no unfamiliar technology.

Taking the technical complications out of its offering has allowed Delta Three to open negotiations with some impressive customers, including – surprisingly – the Palestinian telephone company, which receives incoming calls through the Israeli phone system instead of through the unique country code that has been allocated to Palestine.

What are the long-term effects of all this? In general, alliances between internet telephony companies like Delta Three and telephone resellers like RSL will mean that dozens of countries start to withdraw, effectively, from the international accounting-rate system. This is my reason for predicting that international calls will cost no more than national ones in the industrial world by 2000.

In particular, the deal also places the founders of Delta Three in a pretty position. With only 17 employees, they have a powerful partner that may easily help them to grow into a serious business turning over tens of millions every year.

And if not, their downside is protected: an unpublished element of the deal is that if things don't work out, the three founders have the right to sell RSL the remaining 49 per cent of the company for a further $5m. Not a bad outcome for a year's hard work.

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BUSINESS TRAVEL

Travel News · Roger Bray

Olympic training

Greek national carrier Olympic Airways wants to sharpen up its cabin service – but it has a problem. Chief executive Jordan Karatzas says the airline must address a quirk of the Greek character.

"I have noticed over and over again that if our staff, or that of any other Greek service provider, think you really need help, then they go out of their way. But if you make them feel they have to provide it you hit a wall. That is something which has to be dealt with."

Dealing with it will be part of a new training programme being developed by the airline.

Fizz on tap

Stuck in Los Angeles over the weekend? Unlimited Dom Perignon is on offer with Sunday brunch at the Peninsula Beverly Hills hotel. The price – $42.50 a head – should allow you to make a business contact or two happy.

Also for travellers with time on their hands, several Hyatt hotels can now arrange the hire of Harley-Davidson motorcycles. They include Hyatt Regency Florida properties at Miami and Coral Gables. Prices range from $135 (£80) a day.

Powered flight

Laptop power points should be available on some United Airlines flights this month in first and business class.

The first aircraft to be equipped will be Boeing 757s operating on US domestic services and on some cross-border routes. The system will provide 15 volts but to use it you will need a special adaptor lead. They should be available on the airline's transatlantic 767s from the end of the year.

Passengers on United's new 777s will have to wait a few months. The aircraft have to go back to Boeing to be fitted with the points.

Hanoi's new hotel

The Westin chain is to open a $42m luxury hotel in the centre of Hanoi early next year. The Vietnamese property will have 309 rooms, including 69 suites, two restaurants, meeting facilities, a 24-hour business centre, health club and pool.

New York service

Continental Airlines launches a new daily transatlantic service tomorrow between Birmingham and Newark, New Jersey – an alternative gateway to New York.

Watchdog barks

The UK consumer watchdog Air Transport Users Council wants to see airline conditions of carriage tilted more in favour of the consumer. Too often, it says, the industry has its cake and eats it.

It cites the case of an airline which cancelled a short-haul flight simply because it did not have enough bookings – and then failed to compensate passengers whose day trip tickets were rendered useless. Eventually the carrier paid up, but the council notes that it was within its rights to refuse.

The European Commission has ordered an independent review of the issue, which is likely to be completed this autumn.

Hertz

The free tank of petrol offer from Hertz mentioned in last week's Business Travel page is for UK customers travelling in the US. The deal applies to bookings made for three or more days by the end of August for rentals taken before March next year.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	27	28	29	28	28
Hong Kong	32	31	32	32	32
London	21	24	27	28	25
Frankfurt	26	23	25	26	26
New York	35	34	34	33	33
L Angeles	24	24	25	26	25
Milan	25	26	27	26	25
Paris	23	23	26	26	26
Zurich	23	21	20	22	23

Information supplied by Meteo Consult of the Netherlands

Maximum temperature in Celsius

Summer in the city

Tallinn should be avoided in winter, warns Amon Cohen

Visiting most parts of the former Soviet Union brings out the Indiana Jones in business travellers. Dodging mafiosi, surviving flights on aircraft of dubious vintage and mastering arcane telecommunications systems are all part of the excitement.

But an armour-plated safari suit is no longer required in the Baltic republic of Estonia. The capital, Tallinn, appears to have brushed off its Soviet past effortlessly.

Tallinn instead is much more reminiscent of a Scandinavian city with an attractive old town of narrow, winding streets and cobbled pavements.

The Estonians also have the Nordic talent for languages. Estonian itself is closely related to Finnish and so difficult for outsiders. English therefore is spoken widely.

Easy communications extend to the country's telephone system, as good as any in the west, provided you are in Tallinn or a handful of other towns. Electricity is 220 volts AC, 50Hz and plugs are two-pin, continental European style.

Business travellers report no more than the usual frustrations of establishing modem connections in a foreign country.

The other essentials are also well-covered. National airline Estonian Air flies western aircraft – Boeing 737s and Fokker 50 turbo-props – and is well-liked by European business travellers and diplomats.

Hotels are also improving rapidly and, refreshingly, are not dominated by large international brands. Only Best Western has a presence, with a lodge 20 minutes' drive from Tallinn.

Estonia has no five-star hotels but its four-star properties are extremely comfortable. Some look austere from the outside but have been considerably cheered up inside. A Finnish design company has done wonders for the interior of the Olümpia Hotel, originally built for the Olympic Games in Moscow in 1980. The chic restaurant would not disgrace one of the new Conran emporia in London.

Similarly, stripped wood and modern art daubs predominate at the Palace Hotel, a central 130-bedroom property with a considerably less prepossessing exterior.

For those who need few business facilities other than a telephone, an alternative is the three-star Pirita, about 10 minutes' drive out of town. The best rooms here are about £50 a night.

Only its breakfasts let Pirita down, with few other than herring-lovers likely to come away satisfied.

Two notes of caution about Estonian hotels: one is that even the best hotels tend to issue guests with miserably small bars of soap. More importantly, they are full. Business travellers will be lucky to secure a decent room before the end of this summer.

"We badly need new hotels," says Silvi Bljumovits, director-general of the Estonian Tourist Board. With bed capacity rising by only about 6 per cent or 8 per cent over the next two years, and arrivals increasing 10 per cent annually, one sees her point.

As for doing business in Estonia, all reports suggest that it is considerably easier than elsewhere in the former Soviet Union. Venality and organised crime are on a very low level.

The key to this triumph has been the stability of the kroon, launched in 1992 and tied to the D-Mark at a rate of eight to one. The economy is growing at a rate of between 4 per cent and 5 per cent, and inflation is usually between 10 per cent and 12 per cent. Only a large trade deficit in this tariff-free country mars the statistics. Nevertheless, Estonia, described as a "tiger in the making" by the Daiwa Institute of Research, is anxiously pushing for membership of the European Union.

Business opportunities are still plentiful, although Scandinavians – particularly the Finns – already have a dominant trading position.

Nevertheless, one diplomat says: "Foreign investors are, on the whole, extremely positive about Estonia. It has a good foreign investment agency, which gives potential customers what they need. Plenty of people see Estonia's stable environment as a good launch pad for Russia."

One other note of caution. In summer, a flourishing café society, virtually endless daylight and optimism about its future makes Tallinn a glorious place to be doing business.

In winter, there is snow from December to the end of March and little is seen of the sun. Choose the timing of your visit carefully.

Vital signs

- Hotels: No big western names, although Holiday Inn, Accor and Radisson SAS are all said to be looking closely. No five-star properties either but several good four-stars, including the Olümpia and the Palace. Expect to pay £100 for a four-star hotel, half that or even less for a decent three-star. Remember to book early.
- Eating: Amazingly, Tex-Mex, Chinese, Indian and even Japanese are all available. Estonian cuisine is on the Germanic side: herring, potato and cream are all popular. For old-fashioned home cooking, try Vanaema Juures (Grandma's Place), which is strong on food and atmosphere. The Sub Monte, in a medieval cellar, is also recommended. There are countless good bars in the old city.

London City finally takes off

Industrial strife at British Airways last week has done London City Airport no harm at all. A temporary upsurge in business at one point had car hire staff struggling to find enough vehicles and airlines planning extra flights.

More important was the likelihood that travellers who might never have flown from the airport in the former London Docklands could be hooked. This has been a big year for an airport whose very survival was in constant doubt not long ago.

It has announced its first, tiny net profit. Traffic jumped 73 per cent in the six months to June. And last week management sought planning permission for an approximate doubling of the maximum number of flights permitted there.

There are still holes in the network – flights to Madrid, Copenhagen, Munich, Barcelona and Berlin would round out the portfolio nicely – but the 18 European cities served from the airport include Paris, Rome, and Frankfurt.

Getting to the airport has been a deterrent. But improved road links have made it faster by taxi. Last week, at lunchtime, it took 25 minutes from central London and cost £14.80.

There is good public transport as a back-up to taxis. The airport has smartened up its shuttle bus service to the Docklands Light Railway at Canary Wharf and from there travellers can be in the City in about 30 minutes.

London City's edge is sharpened by a minimum check-in time of only 10 minutes. Meanwhile, planned improvements include reconstruction of the car park, with a new covered walkway to the terminal and bringing in a new catering outlet and three shops.

So apart from inevitable economic uncertainty, the only shadow is the threat of a planning inquiry into the application for more flights.

"We will be at capacity by the end of the year," says managing director Richard Gooding. "An inquiry would leave us with a year in which we would run the risk of turning new business away."

- Destinations from London City (and airlines): Amsterdam, Edinburgh (Air UK); Rotterdam (Air UK/VLM); Dusseldorf (VLM); Antwerp (Sabena/VLM); Brussels (Sabena); Paris (Air France); Frankfurt (Lufthansa); Rome, Milan, Turin (AzurraAir), Zurich, Geneva, Lugano (Crossair); Stockholm, Malmo (Malmo Aviation); Dublin (CityJet); Bern (Air Engiadina).

Roger Bray

PUBLIC NOTICES

OFWAT

Water Industry Act 1991 Section 13
Proposals by the Director General of Water Services for the Amendment of the Conditions of Appointment of North West Water Ltd

Background

On 3 April 1996, the conditions of appointment of North West Water Ltd ("NWT") as a water and a sewerage undertaker ("the Appointed Business") were modified, to meet conditions attached to the clearance of the takeover of Norweb plc by NWT's parent (now United Utilities PLC).

NWT has now agreed with the Director General of Water Services ("the Director") further modifications of its conditions of appointment. They are based upon those agreed by Dŵr Cymru Cyfyngedig early last year, when its parent (now Hyder plc) was allowed to take over SWALEC plc.

The relationship between North West Water and its Associates

Reliance on associates for important services

NWT's conditions of appointment already require that its directors certify annually their opinion as to the adequacy of the financial and management resources that are available to it for the conduct of the Appointed Business.

NWT purchases a wide range of services from its associate, Vertex. The Director considers that this relationship should not diminish NWT's responsibility for the proper conduct of its Appointed Business, including its relationships with its customers.

A proposed modification will require that, when issuing the annual certificate of adequacy of resources -

the directors of NWT record their opinion that all contracts entered into with any Associated Company include all necessary provisions and requirements concerning the standard of service to be provided to it, to ensure that it is able to meet all its obligations as a water and a sewerage undertaker.

North West Water's ability to act separately from United Utilities PLC

Although NWT is a member of the United Utilities Group, it has separate duties, as water and sewerage undertaker for its area. The Director considers it important that NWT should, in carrying out those functions, act independently of United Utilities. A further modification will therefore require -

that NWT shall, at all times, conduct the Appointed Business as if it were substantially its sole business and NWT were a separate public limited company. In doing so, NWT should have particular regard to the following:

(a) the composition of NWT's Board should be such that its directors, acting as such, act independently of United Utilities;

(b) NWT must ensure that each of its directors must disclose, to it and to the Director, conflicts between their duties to NWT and other duties;

(c) where potential conflicts exist between the interests of NWT as a water and a sewerage undertaker and those of other companies in the United Utilities Group, NWT and its directors must ensure that, in acting as directors of NWT, they have regard exclusively to the interests of NWT as a water and a sewerage undertaker;

(d) no director of NWT should vote on any contract or any arrangement or any other proposal in which he has an interest by virtue of other directorships. This arrangement should be reflected in NWT's Articles of Association;

(e) NWT should inform the Director without delay when:

i) a new director is appointed;

ii) the resignation or removal of a director takes effect; or

iii) any important change in the functions or executive responsibilities of a director occurs.

NWT should notify the Director of the effective date of the change and, in the case of an appointment, whether the position is executive or non-executive and the nature of any specific function or responsibility; and

(f) the dividend policy adopted by NWT in the light of paragraphs F6.12.

The relationship between NWT and United Utilities

Condition P of NWT's conditions of appointment already requires NWT to obtain from United Utilities an undertaking to support the proper conduct of its Appointed Business, by providing relevant information and by refraining from actions which might cause it to be in breach of any of its statutory or licence obligations. NWT may only have dealings with United Utilities and its associates for so long as that undertaking remains in force and United Utilities has not breached it and in other circumstances with the written consent of the Director.

The Director considers that NWT's ability to act independently will be reinforced if its owner, United Utilities, ensures that NWT's Board contains persons who are able to reflect the particular interests of NWT's customers. He therefore proposes that -

condition P be extended, so that United Utilities' undertaking to NWT binds it to ensure that NWT's Board contains two non-executive directors, who shall be persons of standing with relevant experience, including in particular an understanding of the interests of NWT's customers and how these can be respected and protected.

Process and timetable

Any representation about, or objection to, these proposals must be in writing and sent to the Director General of Water Services, Centre City Tower, 7 Hill Street, Birmingham B5 4UA (Fax: 0121 625 3606) so as to be received by him not later than 17.00 hours on Wednesday 13 August 1997. Please quote reference LEG/34/1/4

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY

Albion 0.8p
Barclays Bank Und Prim Cap FRN $297.01
British Gas Int Fin 6¼% Gtd Bd 2003 $62.50
Culver 4.25p
Funding 3½% 1999/2004 £1.75
German Smaller Co's Inv Tst 0.7p
Kinta Kellas M$0.07
Kobe 6⅝% Gtd Bd 2003 $316.75
Land Sec 19.65p
Manitoba 9⅞% Rtrctble Db Jul 1998 Ser Br C$98.75
Peoples Contsr Bank of China FRN 1996 $312.42
Do FRN 2000 $317.47
Sanwa Australia Fin Gtd Fxd/FRN 2005 $3097.19
Severn Trent 11½% Bd 1999 £575.0
Smart (J) 2.8p
Spandex 2.1p
Standard Chartered Und Prim Cap FRN $301.33
Do Und Prim Cap FRN (Ser 4) $295.12
Treasury 13% 2000 £6.50
Turnpyke 0.4125p
WPP 1.144p
Walker Crips Weddle Beck 2p

■ TOMORROW

Abtrust Cv Inc Tst 1.6p
American Medical Int 9⅞% Un Ln 2011 £4.9375
BCE C$0.34
Barclays Bank Prop Index Certs 1997 £1.95
Do 1998 £1.95
Do 12% Un Cap Ln 2010 £6.0
Chrysler $0.40
Churchbury Estates 4.2% Cm Pf 2.1p
City Mortgage Rcvbls 1 Mtg Bckd FRN Feb 2023 Ser 1996-2001 £43.16
Do No 2 Oct 2023 Ser 1996-2002 £47.54
Do No 3 Class A Mtg Bckd FRN Oct 2023 £46.18
Do Class B £62.03
Do No 4 Class A Mtg Bckd FRN Aug 2028 Ser 1997-2001 £50.45
Do Class B £62.03
Do No 5 Class A Dfd Int Mtg Bckd FRN Sep 2032 £45.66
Do Class B £92.41
Do No 6 Class A Mtg Bckd FRN Mar 2029 Ser 1997-2003 £49.93
Do Class B £62.03
Dares Estates 10¼% 1st Mtg Db 2012 £5.125
Denby 1.55p
Edinburgh Inv Tst 3¾% Db 1998 £1.675
F & C Special Utilities Inv Tst 1.57p
Do Package Units 1.57p
Do S 0.9p
Fluor $0.19
Franklin Res $0.09
Govett Strategic Inv Tst 10⅜% Db 2016 £5.1875
Greenway 1.5p
Hardy Underwriting 2p
Helical Bar Cv Rd Pf 2012 2.625p
HIT Entertainment 0.5p
Hydro-Quebec FRN Ser IN 1999 $14.70
Inco 15¾% Un Ln 2006 £78.75
Johnson Fry Second Utilities Tst 1.85p
Johnson Fry Utilities Tst 1.85p
Mitsubishi Chem (UK) 5¾% Nts 1998 $57500.0
Morgan (JP) $0.68
Motorola $0.12
Murray Int Tst 3.9% Cm Pf 1.95p
North Surrey Water 4% Db £2.0
Do 4¼% Db £2.125
Do 5¼% Db £2.625
Occidental Petroleum $0.25
Perkins Foods Cv Rd Pf 2005 4p
Quaker Oats $0.285
Seiyu 6.15% Bd 1997 Y615000.0
Shalibane 1.05p
Smithkline Beecham 2.45p
Sumitomo Fin Int Gtd FRN 2004 $31167.96
Suzuki 4.35% Bd 1997 Y435000.0
Do 4.75% Bd 1999 Y475000.0
Sweden 11% Ln 2012 £550.0
Tate & Lyle 6.625p
Treasury 9½% Ln 1999 £4.75
Value Realisation Tst 1.4% Cv Un Ln 2006 £1.24
Wilmington 1.2p
Witan Inv 3.4% Cm Pf 1.7p
Yokohama 6¼% Gtd Bd 2003 $62.50

■ WEDNESDAY JULY 16

Abbey National Treasury 7½% Gtd Nts 1998 C$75.0
Aberdeen Asset Mngmnt 1.25p
Anglo & Overseas Tst 4½% Cm Pf 1.575p
Barlow R0.36
Benson 0.75p
BP America 9¼% Gtd Nts 1999 A$92.50
Commonwealth Bank of Australia Dtd FRN Jul 1998 $289.10
Do FRN Jul 1999 $289.10
Do FRN Jul 2000 $289.10
Do Und FRN (Jul 1988 Iss) $298.64
Energy Cap Inv Co 6p
European Inv Bank 9% Ln 2001 £225.0
Fleming Far Eastern Inv Tst 3.35p
Hongkong & Shanghai Banking Prim Cap Und FRN (Ser 3) $75.83
Hozelock 3.4p
Nat West Bank Non-Cm $ Pf Ser A $0.532
Do Ser B $0.4375
Do Prim Cap FRN Ser A $298.52
New Zealand 10½% Bd 2000 $105.0
PGA European Tour Courses 0.05p
Tongaat-Hulett R1.23
Treasury 8½% Ln 2007 £4.25

■ THURSDAY JULY 17

Abbey National Treasury Gtd Cap FRN 2001 L89904.0
Aberdeen European Inv Tst 1.1p
First Ireland Inv 2.1p
Framlington Inc & Cap Tst 2.15p
Hyder 8¾% Bd 2006 £87.50
M & G 16p
Moorgate Smaller Co's Inc Tst 2p
St Paul Co's $0.47
Simon 9¼% Db 1992/97 £0.430822
Treasury 2½% IL 2024 £1.9696
Wood (John D) 2.5p
Young & Co's Brewery 7.85p
Do N/Vtg 7.85p

■ FRIDAY JULY 16

Berry Birch & Noble 2p
British Smaller Co's VCT 1.94p
Cedardata 0.7p
Echlin $0.225
Faber Prest 6.5p
Morland 3.79p
Pillar Property Invs 3.4p
Royal Bank of Scotland 6.2p
Scottish Inv Tst 2.06p
Tunstall 1.85p
Voyageur European Smaller Co's Tst 0.6p
Whitbread 17.55p

■ SATURDAY JULY 19

Exchequer 9¾% 1998 £4.875
Treasury 2% IL 2006 £2.21

■ SUNDAY JULY 20

Bradford & Bingley Bldg Scty 11⅝% Perm Int Brg £581.25
British Steel 11½% Db 2016 £5.75
Dewhurst Dent 7% Un Ln 1990/2000 £3.50
Int Bank for Reconstruction & Dev 9¼% Bd 2007 £462.50
Westbury 4.5p

UK COMPANIES

■ TODAY

COMPANY MEETINGS:
Bristol Water, The Holiday Inn Crowne Plaza, Victoria Street, Bristol, 11.00
British Lands, Mayfair Inter-Continental Hotel, Stratton Street, W., 12.00
Fleming Income & Capital Inv Tst, 25, Copthall Avenue, E.C., 3.00
Kleinwort Endowment Policy Tst, 10, Fenchurch Street, E.C., 12.30
PowerGen, International Convention Centre, Broad Street, Birmingham, 11.00
Quiligotti, 1, New Change, E.C., 12.00
Victoria Carpet, Green Street, Kidderminster, 2.30
Wamford Invs, Chartered Insurance Institute, 20, Aldermanbury, E.C., 12.00
Wilmington Group, 20, Red Lion Court, E.C., 4.00
BOARD MEETINGS:
Finals:
Ashtead Group
Cavaghan & Gray
Ellis & Everard
Partners Hldgs
Interims:
Lorien
Olim Convertible Tst

■ TOMORROW

COMPANY MEETINGS:
Benson Group, Solihull Moat House, Homer Road, Solihull, West Midlands, 11.00
British Airways, Barbican Centre, Silk Street, E.C., 11.00
Cohen (A), Clareville House, 26-27, Oxendon Street, S.W., 12.00
Hiscox, 52, Leadenhall Street, E.C., 12.00
Pillar Property Invs, Mayfair Inter-Continental, Stratton Street, W., 9.30
TLG, City Presentation Centre, 4, Chiswell Street, Finsbury Square, E.C., 10.00
Young & Co Brewery, Civic Suite, Wandsworth Street, Wandsworth, S.W., 10.30
BOARD MEETINGS:
Finals:
Aim Group
Anite Group
Baring Emerging Europe Tst
Eibief
Kenwood Appliances
Moorgate Inv Tst
Shield Diagnostics
Trifast
VHE Hldgs
Zergo Group
Interims:
Inn Business Group
Tst of Property Shares
Wintrust

■ WEDNESDAY MAY 16

COMPANY MEETINGS:
Acal, Plaisterers' Hall, 1, London Wall, E.C., 12.00
British Telecom, Edinburgh International Conference Centre, Morrison Street, Edinburgh, 10.30
European Colour, 5, Appold Street, E.C., 12.00
Expo Intl, Founders' Hall, 1, Cloth Fair, E.C., 10.00
Field Group, SAS Portman Hotel, 22, Portman Square, W.C., 11.30
Johnson Matthey, Sainsbury Wing Lecture Theatre, The National Gallery, Trafalgar Square, W.C., 12.00
Pleamon, 222, Grays Inn Road, W.C., 11.00
Plysu, 25, Copthall Avenue, E.C., 12.15
UMECO, The Bear Hotel, Charnham Street, Hungerford, Berkshire, 12.00
BOARD MEETINGS:
Finals:
Bulmer Hldgs
First Technology
Smith (David S)
Interims:
Allied Textile Cos
Microgen Hldgs
Scottish American Inv Co

■ THURSDAY MAY 17

COMPANY MEETINGS:
Amberley, 3, Colmore Circus, Birmingham, 12.00
Ashquay, Watermen's Hall, 16, St Mary-at-Hill, E.C., 12.00
Cambridge Water, 41, Rustat Road, Cambridge, 4.30
EMAP, The Haycock Hotel, London Road, Wansford, Peterborough, 12.00
Marks & Spencer, Grosvenor House Hotel, Park Lane, W., 11.00
Meyer Intl, Waldorf Hotel, Aldwych, W.C., 12.00
Protean, 135, Bishopsgate, E.C., 10.00
BOARD MEETINGS:
Finals:
Somerfield
Stanley Leisure
Interims:
Aberforth Smaller Cos Tst
Greenwich Resources

■ FRIDAY MAY 18

COMPANY MEETINGS:
Amersham Intl, Royal Society of Medicine, 1, Wimpole Street, W., 11.30
BAA, Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, S.W., 11.15
European Motor, Abbey Road, Park Royal, N.W., 12.00
London Clubs Intl, 5, Hamilton Place, 10.15
Powell Duffryn, The Berystede Hotel, Bagshot Road, Sunninghill, Ascot, Berkshire, 12.00
Protean, 135 Bishopsgate, E.C., 10.00
WT Foods, The Chamber of Shipping, 12, Carthusian Street, E.C., 11.00
BOARD MEETINGS:
Final:
Calluna

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent annoucements.

ARTS

OPENINGS

VERBIER
Visitors to Martin Engstroem's festival in the Swiss Alps can look forward to a high-powered series of concerts over the next three weeks. The programme includes a trio recital by Martha Argerich, Gidon Kremer and Mischa Maisky, an evening with Nigel Kennedy (left), a Wagner concert and a celebration of symphonic jazz. Sir Neville Marriner conducts the opening orchestral concert on Friday.

MONTPELLIER
Concert performances of operatic rarities are a speciality of the annual festival organised by Radio France. This year's programme includes two French premieres – *Die lustige Nibelungen*, a Wagnerian burlesque by Oscar Straus, and Richard Strauss's *Guntram*. The festival opens tonight with Bach's St John Passion conducted by Friedemann Layer.

BERLIN
Max Liebermann, born 150 years ago, was the leading Impressionist painter in Germany. The Alte Nationalgalerie has organised a comprehensive retrospective, opening on Saturday.

LONDON
Thanks to a gift from the Garfield Weston Foundation, the British Museum has a new gallery to display its finest treasures from Roman Britain (left). Four centuries of artifacts, including recent archaeological discoveries, will be housed in the Weston Gallery of Roman Britain, which opens on Thursday.

BREGENZ
Anton Rubinstein's rarely staged opera *The Demon* is the connoisseur's piece at the Bregenz festival, opening on Thursday. But for many visitors, the attraction will be Götz Friedrich's new production of *Porgy and Bess* on the floating stage.

SALZBURG
Sir Roger Norrington conducts the opening performance at this year's Salzburg festival on Sunday. *Mitridate*, staged by Jonathan Miller, is one of five Mozart operas at the festival. The programme also includes the Peter Stein/Claudio Abbado *Wozzeck* and the Royal National Theatre's new production of Shakespeare's *Othello*, starring Adrian Lester and Claire Skinner (right).

Spread the word – it's time for the Proms

Nicholas Kenyon is on track to broaden the appeal of the popular music festival, says **Andrew Clark**

Last year it was "Broadway comas to the Proms"; this year, "Pop go the Proms". Newspaper headlines lika these suggest that Nicholas Kenyon, controller of BBC Radio 3 and director of the world's biggest music festival, is getting his message across. The Proms are not just for peopla who can tell Bach from Beethoven.

No matter that this summer's selection of Lennon and McCartney is limited to 11 minutes of a late-night concert, that Frank Zappa will be played by a German contemporary music ensemble, or that there are more Proms premieres than ever. Thanks to clever marketing, the Henry Wood Promenade Concerts ara recognised as popular and all-inclusive.

"In the long term," says Kenyon, "the big question is: how can we get a new generation to believe that the Proms are the place for them? If a few Beatles songs make people feel that the Proms bold no terrors, it provides a marvellous way in to classical music."

Behind tbe headlines, tbis year's 73 concerts – beginning with Beethoven's *Missa Solemnis* on Friday – reinforce the Proms' unchanging purpose: first, to introduce the standard repertoire to as large a public as possible, in high quality performances and in an informal, inexpensive format; and second, to maintain a commitment to contemporary music. What Kenyon is saying is that this message needs to he constantly reformulated.

The success of the 1996 season abowed that Kenyon, in his first year in charge, understood tha Proms' appeal and was eager to build on it. He launched tha Proms Guide with a CD in which famous personalities chose their favourite music. He also organised a Prom in Hyde Park, adding an extra dimension to the traditional Last Night bash in the Royal Albert Hall; it attracted 26,000 people. This year brings the first solo recital at the Proms, by 25-year-old Russian virtuoso Evgeny Kissin. And Radio 3 listeners who miss the live evening broadcasts will now be ahle to hear repeats on weekday afternoons throughout the summer.

The 1997 line-up may have fewer top-flight orchestras than last year, but the musical content is just as strong. So can Kenyon ait back and enjoy the music from his director's box? Not entirely. As one of the UK's cultural tsars, he is as concerned as any about claims that the worldwide audience for classical music is ageing and shrinking. That is why he is determined the Proms should appeal to the widest possible public.

Kenyon, 46, aays classical music used to be something many peopla warmed to in middle-age, "but they came to it as a result of having been exposed to it and grown into it gradually. What the market is now seeing is that the replenishing which happened naturally in the past is no longer taking place on tha same scale. Maybe there'a something wrong with the education system; maybe people who grew up with pop music are going on listening to it rather than moving across."

> *It would be a foolish director who tinkered too much with the time-honoured Proms framework*

Kenyon is doing his bit to reverse the trend. McCartney and Zappa are one aspect; another is the Junior Prom, which he introduced last year, crowding the Royal Albert Hall with children aged 6-14. It is repeated this summer and will probably become a fixture. He is also exploring the possibility of taking the "Proms in the Park" around the country. But it would be a foolish director who tinkered too much with tha time-honoured Proms framework. Kenyon agrees: "I've inherited a formula that works."

Traditionalists can therefore sleep In peace. It was a different matter when Kenyon arrived at Radio 3 in 1992 and set about changing its style and structure. His argument was that Radio 3 had become staid and specialist. His critics, however, accused him of taking it downmarket to compete with a new commercial station, Classic FM. There was a further outcry when American broadcaster Paul Gambaccini was given a morning slot on Radio 3.

Kenyon, a former music critic, seemed to enjoy the battle. Unlike previous controllers, he had not worked his way up the BBC career ladder. A wide-ranging awareness of the muslcal world informed his viewpoint, and he proved adept, in his cheerful, down-to-earth way, at handling BBC politics.

Now that the furore has died down, Kenyon admits be might have got away with more if he had proceeded by stealth. "The troubla was that, at the same time as changing tha programmes, I was also trying to give Radio 3 some profile in the outside world. The visibility of change was an asset in marketing terms, but it made regular listeners think we were changing more than we were. Looking back – and I was incredibly inexperienced when I came in – it was simply the difference between changing quietly or dramatically. We're now aiming at a far more gradual process of change."

But with a less high-brow style of presentation, and a programme sequence better tailored to the daily rhythm of life, what else is there to change? There will be more promotions like *Sounding the Century*, Radio 3's mammoth 20th century retrospective, in an attempt to generate a sense of event and bring focus to a spread of programmes. Kenyon also wants to standardise the schedule to the point where, at least on weekdays, regular listeners will know whan to tune in to their BBC orchestral concert or their specialist strand of contemporary music, without even needing to look up the starting time.

On a hroader front, he is calling for a major overhaul of the employment contracts of the BBC orchestras, which he says are too inflexible to take advantage of the brave new world of digital broadcasting. "Unless they price themselves realistically, our orchestras are going to become dinosaurs, unable to react to a rapidly changing media environment. They are in tremendous form artistically; contractually they live too much in the past."

Kenyon insists that despite the new market realities facing the BBC, its core music policy has not changed. If Radio 3 had to justify its existence on a ratings basis, "all we would have to do is drop the adventurous repertory and programme wall-to-wall *Your Hundred Best Tunes*. It's more a question of keeping the output fresh in a world in which there are lots of claims on people's attention. Radio 3 is still aimed at the seriously engaged music lover, but we've got to show it has the range, that it knows when to put on Birtwistle and Stockhausen, and when to play popular pieces the audience will recognise."

Within that range, investing in new music remains an important element of BBC patronage, and the Proms – which it subsidises to the tune of £2.5m a year – are its brightest showcase. This year's commissions include an electronic extravaganza by US composer Roger Reynolds and Jonathan Harvey's new percussion concerto for Evelyn Glennie.

Pointing to recent sell-out concerts of Boulez and Ligeti at London's South Bank Centre, Kenyon says the market for new music is turning a corner. "Instead of it being only for the ghetto, it has become viable for the geueral public. It will still need to be subsidised, but with this kind of enthusiastic response, the contemporary in music seems to be reaching the status that contemporary art and dance have bad for years."

Royal Albert Hall Ticket Shop: 0171-589 8212.

Pop

Jackson loses touch

It is quite appropriate that Michael Jackson should apparently be deposited ou to the stage of Wembley Stadium by a capsule from outer space for his Saturday night concert. For there is no entertainer so rapped up in illusions, or rather delusions, and with so little grasp of humanity.

The fact that be long ago gave up being a pop star to become a self-styled force for world peace and reconciliation makes his tenuous hold on reality even more bizarre. The finale of his show presents such a mish-mash of contradictions that tbe mind can only slip into free-fall boggle.

We know the end is approaching when Jackson goes all serious, sweeping above the audience on a gantry singing "Earth Song", then to be joined on stage by a gaggle of "peasants" and a circle of children. Suddenly this idyll is broken by the appearance of a tank. A soldier steps down and aims to sboot a child. Jacksoo disarms him. The soldier weeps, acknowledging that tbe self-appointed king of pop bas saved the world, again.

Then comes the anti-climax. A military parade appears, witb dancers waving the flags of the nations and musicians drumming their socks off. Jackson, with his weakness for military costumes, is the generalissimo inspecting his troops. This man really does love the thing be hates.

It is a curiously sobering end to an unsettling show. Of course the fact that Jackson is no more than a glove puppet in the vast stadium reduces the impact of his performance and makes the giant screens that edge the stage the main source of wonder at the dance pyrotechnics. But the experience is also lessened by the long breaks between what are essentially cameos of Jackson's past – as a suspiciously black member of the Jackson Five, at his peak as Thriller, and now as conscience of tbe nations.

The special effects still catch the breath. Jackson, dressed as a gangster, tommy gunning the lighting rig in "Smooth Criminal", the explosion of fireworks in "Black or White", when the backing wall seems to fall on the dancers. But it is all disjointed.

One thing is clear: Jackson is no longer an entertainer. In his struggle to regain his private and critical reputation after the years of tacky gossip he has lost touch with the one thing that gave him any integrity.

Anthony Thorncroft

INTERNATIONAL ARTS GUIDE

■ CHELTENHAM

CONCERTS
Cheltenham Festival
Tel: 44-1242-227979
● Hanover Band and Corydon Singers conducted by Matthew Best in works by Wagner, Pärt and Brahms; at Tewkesbury Abbey; Jul 14
● Bournemouth Symphony Orchestra: conducted by Paul Danial in works by Brahms, Schwertsik and Mozart; at the Town Hall; Jul 16
● BBC National Orchestra of Wales: conducted by Tadaaki Otaka In Brahms' Symphony No. 4 In E minor, a new work by Julian Anderson and Beethoven's Violin Concerto in D performed by Raphael Oleg; at the Town Hall; Jul 20

■ DROTTNINGHOLM

OPERA
Drottningholms Slottsteater
Tel: 46-8-4570600
Euridice: by Jacopo Peri. Swedish premiere. Produced by Karl Dunér, and designed by Peder Freij, with the Drottningholm Theatre Orchestra conducted by Jakob Lindberg; Jul 15, 16, 18

■ GRAZ

CONCERTS
Styriarte Festival
Tel: 43-316-825000
Händel's Fireworks: Jordi Savall conducts the Concert des Nations in the Festival's final concert. Purcell's Fairy Queen Suite and Handel's Music for the Royal Fireworks; at the Stefaniensaal; Jul 20

■ LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● Bernard Haitink conducts the BBC Symphony Orchestra, Chorus and the BBC Singers In Beethoven's Missa Solemnis; Jul 18
● Nicholas McGegan conducts selections from Mozart and Schubert's one-act opera *Die Vershworenen*, performed by the Orchestra of the Age of Enlightenment. Sololsts include soprano Hillevi Martinpelto; Jul 19
● World premiere of a new work by Michael Gordon and UK premiere of John Adams' *Scratchband* plus music by Steve Reich, Lou Harrison, Philip Glass and Frank Zappa. Performed by the Ensemble Modern and conducted by John Adams; Jul 20

DANCE
London Coliseum
Tel: 44-171-632 8300
● The Kirov Ballet: Symphony in C/Gisella – Balanchine's masterpiece is staged by John Taras of New York City Ballet, with casts to include all of the Kirov's leading ballerinas; Jul 14, 15, 18, 17
● The Kirov Ballet: The Sleeping Beauty – casts vary; Jul 18, 19

EXHIBITIONS
British Museum
Tel: 44-171-636 1555
Arts of Korea: ovarview of Korean art and archaeology ranging from the Neolithic period to tha 19th century. Exhibits Include a royal gold crown from the Silla kingdom, early Buddhist manuscripts, Koryo (round) ceramics and 18th century landscapes. The exhibition is scheduled to run until 2000, when it will be replaced by a new, permanent Korean Gallery.

■ LOS ANGELES

EXHIBITIONS
Museum of Contemporary Art
Tel: 1-213-6268222
Jeff Wall: first retrospective exhibition of the Canadian artist whose photographic work draws on the narrative traditions of tableau painting; the exhibition has been seen in Washington and will travel to Japan; to Oct 5

■ NEW YORK

CONCERTS
Lincoln Center Festival 97
Tel: 1-212-875 5030
● New York Philharmonic at the Avery Fisher Hall. Kurt Masur conducts a programme of works by Henze and Wagner. With soprano Deborah Voigt; Jul 14
● New York Philharmonic at tha Avery Fisher Hall. Music director Masur's 70th birthday is to be celebrated in a programma of popular favourites. With Anne-Sophie Mutter and other guest artists to be announced; Jul 18

OANCE
Lincoln Center Festival 97
Tel: 1-212-875 5030
● The Royal Ballet at the Metropolitan Opera House: *The Prince of the Pagodas*. Music by Benjamin Britten. NY premiere of this three-act ballet, choreographed by Sir Kenneth Macmillan. Darcey Bussell is Princess Rose; Jul 18, 19
● *Cinderella*: revival of Sir Frederick Ashton's ballet, set to Prokofiev's score; Jul 20

■ PARIS

DANCE
Opéra National de Paris, Palais Garnier Tel: 33-1-43439696
Sylvia: new version, with fresh choreography by John Neumeier, to music by Delibes; Jul 14, 15

OPERA
Opéra National de Paris, Opéra Bastille Tel: 33-1-44731300
Rigoletto: James Conlon conducts Jérôme Savary's staging of Verdi's opera, with sets by Michel Lebois; Jul 15

■ ROME

CONCERTS
Accademia Nazionale di Santa Cecilia Tel: 39-6-6880 1044
● Orchestra dall'Accademia Nazionale di Santa Cecilia: conducted by Myung-Whun Chung in works by Weber, Schubert and Beethovan; Jul 17
● European Union Baroqua Orchestra: conducted by Roy Goodman in a programma of works by Vivaldi, Telemann, Bach, Quantz, Heinichen and Rameau; to celebrate tha tricentenary of the birth of Joachim Quantz; Jul 18

■ SALZBURG

THEATRE
Salzburg Festival
Tel: 43-662-844501
● Jedermann: by Hugo von Hofmannsthal. Revival of Gernot Friedel's production, designed by Imre Vincze; at the Domplatz; Jul 20

■ SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
● La Traviata: Linda Brovsky directs this new production of Verdi's opera, set in the Parisian demimonde. Christopher Larkin conducts; Jul 18
● Arabella: Janica Watson sings the title role of Strauss's opera, in a new production directed by John Cox. The conductor is John Crosby; Jul 19

■ TANGLEWOOD

CONCERTS
Tanglewood Festival
Tel: 1-617-931 2000
● Seiji Ozawa conducts the Boston Symphony Orchestra in works by Takemitsu, Mozart and Beethoven. With piano soloist Peter Serkin, baritone Mark Oswald, and tha Tanglewood Festival Chorus conducted by John Oliver; at the Shed; Jul 18
● James Conlon: conducts the Boston Symphony Orchestra in a programma of works by Brittan, Bruch and Stravinsky. With violin soloist Itzhak Perlman, tenor John Aler, and tha Tanglewood Festival Chorus conducted by John Oliver; the Shed; Jul 19

■ VERONA

OPERA
Arena di Verona
Tel: 39-45-800 5151
● Aida: by Verdi. Conducted by Nello Santi (Roberto Tolomelli on Aug 28, 31), in a staging by Gianfranco de Bosio, revived by Susy Attendoli. Casts vary; on Aug 1, 10 & 15 Maria Guleghina sings the title role; Jul 18
● Carmen: by Bizet. Conducted by David Gimenez, in a staging by Franco Zeffirelli. Agnes Baltsa and José Carreras recreata their famous double-act on Jul 19, 22 & 25; Jul 19

■ WASHINGTON

CONCERTS
Wolf Trap Tel: 1-703-255 1860
Nabonal Symphony Orchestra: conducted by Elizabeth Schulze in works by Tchaikovsky, Prokofiev and Rimsky-Korsakov. With violin soloist Sarah Chang; Jul 17

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17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Philip Stephens

A choice of future

Containing terrorism is the only alternative if Northern Ireland's politicians fail to reach a political settlement

There are two futures for Northern Ireland. It can look to a political settlement shaped by uninnists end nationalists alike. Or, by default, it can revert to a past in which the politics of the province consist of nothing more than the containment of terrorism. There are no choices in between.

This pretty obvious reality escapes extremists on both sides. The psychopaths of Sinn Féin/IRA delude themselves that Britain can be driven from the island of Ireland by force and frustration. They heve never understood that, while the Britisb political classes might privately yearn to wash their hands of Ulster, the price will always be too high.

As for the dreary inadequates who serve as the footsoldiers of the Orange Order, they see self-rule as synonymous witb untrammelled Protestant hegemony. Their mistake is to believe that Westminster could re-establisb a devolved system of government for Ulster without the consent of nationalists.

Neither side grasps that the simplest option for Tony Blair's administration would to leave them to it, much as its predecessors did for the two decades after 1973. A few thousand more troops on the ground would contain the violence. And, once Northern Ireland had returned to the back-burner of mainstream politics, the riots and murders would fall off the front pages.

Mr Blair and Marjorie Mowlam, bis embattled Northero Ireland secretary, must be sorely tempted. The Orange Order march a week ago in Drumcree, Portadown, and tbe subsequent mayhem wrought by angry oatiooalists carried a message even more depressing than the murderous terrorism of Sinn Féin/IRA and the very real threat that loyalist gunmen will sooo respood in kind.

That tbe leadership of the Orange Order saw sense at the weekend and abandoned or rerouted its most contentious marches is scant consolatinn. The government, having surrendered to Protestant might in Drumcree, had anyway determined to ban them.

Instead we bave been reminded once again just how deeply embedded are the instincts of sectarianism – not just among a few bundreds or even thousands of extremists hut across large swathes of both communities. In the innocence born of necessary optimism, the easiest assumption to make about Northern Ireland is that all hut a handful of its people are set on peace. We have seen lately how many of them prefer the comfort blanket of sectarianism to the unfamiliar challenge of accommodation.

Here is a world in which to compromise is to surrender, to be imaginative is to be weak. As Ms Mowlam has discovered during two montbs of intensive contacts, unionists and nationalists live within the mindset of tbe victim. Her mistake was to think openness and honesty might crack the bard crust of sectarian hostility.

Take first the Orenge Order, the praetorian guard of unionism. We are told by its apologists that the annual celebration of William of Orange's victory more than 300 years ago over the Catholic King James II is a precious part of Northern Ireland's heritage. The Orangemen, complete with sashes, bowler hats and furled umbrellas, have an inviolable right to commemorate the event wherever they will.

> The only significant change in the constitutional position in recent years has been acceptance of the principle of consent

The small detail that the Orange Order was not founded until a century after the Boyne, with the explicit purpose of driving Catholics from their land, is forgotten. So too ie the order's legendary hrutality in the suppression of subsequent Catholic uprisings. Some heritage.

So nationalists in Drumcree had cause to feel aggrieved. But the murder and mayhem which followed was no spontaneous reaction. It was planned and orchestrated by Sinn Féin/IRA. And it was not just the gunmen. Mothers hoarded lemonade hottles to make the petrol bombs. Their children were sent out to throw them et the police, soldiers and protestants alike.

So wbo could blame Mr Blair if be walked away, if be let the current talks grind on to deadlock and turned his attention to more pressing issues. There is no evidence, after all, that Mr John Major's efforts to bring peace to the province won his government a single vote at the general election. Maybe Mr Blair's new pal Bill Clinton would protest, but not for long. And how tempting must be the prospect of returning Gerry Adams and his terrorist cbums to the inside pages of politics.

The prime minister has decided nthenwise. As Ms Mowlam indicated yesterday, the government still sees e chance of another ceasefire. It admits there is little purpose in speculating whether this would represent more than e second pause in tbe Republican campaign of violence, hut thinks it worth playing for nonetheless.

The reasoning runs as follows. However distasteful they mey sometimes have seemed, nothing of substance has been yielded in official contacts with Sinn Féin/IRA. The only significant change in the constitutional position of Northern Ireland in recent years has been widespread acceptance of the principle of consent. This bas entrenched, not weakened, tbe unionists' veto over tbe province's constitutional status.

As for Republicans, the argument runs, they are now exposed for the first time to external constraints. When Sinn Féin/IRA murdered a soldier or police officer a few years ago, there was no comeback. By posturing as politicians, its leaders now have to answer for their actions. Interviewers ask awkward questions. Invitations to the White House are cancelled, tbe painfully-applied gloss of respectability is tarnished.

Mr Adams, it is said, was obliged to bend under the pressure only a few weeks ago when, in e hitherto unpublicised letter to Mr Blair's government, he softened the conditions for a ceasefire.

You do not have to be an Orangeman to believe that all this may be whistling in the wind, that Republicans may again be playing a tactical game. There is no certainty, anyway, tbet they will restore a ceasefire.

But to admit as much is only to emphasise the duty of constitutional politicians – of David Trimble's Ulster unionists and John Hume's SDLP – to make the accommodation so determinedly avoided by both sides at Drumcree. For if they do oot, the outcome is certain. Northern Ireland will be left to live with the miserahle consequences of its own intransigence.

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Economy needs modest upward movements in interest rates

From Mr Patrick Foley.

Sir, John Wells (Letters, July 9) is right to point out the need for nimble-footed policy, but only as far as monetary policy is concerned.

We have published research recently (*Lloyds Bank Economic Bulletin*, February 1997) which shows that short-term demand management through fiscal policy if anything destabilises economies, and that this role is best left to an independent central bank.

Your leader meanwhile ("Interest rates", July 9) argues thet "significantly higher [UK] interest rates will be required", and suggests that a full percentage point jump might be best to shock consumers into reducing spending.

However, it is our helief that economic growth will elow next year to 2 per cent or below even with a more modest ½ per cent rise. This is the result of a strong pound, monetary policy tightening and the end of demutualisation windfalls. A sharper tightening runs the very real risk of turning this slowdown into something approaching a recession.

We have conducted a simulation on our UK model of the combined impact of 8 per cent base rates by year-end and a continuation of sterling's current strength. This causes growth to drop to below 1 per cent next year, even assuming that the monetary policy committee lowers rates in 1998 – and sterling falls back – in response to the elowdown. Industrial production falls next year by around 1 per cent in this simulation.

While RPIX inflation would be brought back to its target level in 1998, it would carry on falling into 1999. By the middle nf that year, the governor would be writing to the chancellor to explain why inflation was undershooting its target.

The problem for the monetary policy committee is that it takes some time for the full effects of a policy change to feed through the economy – by the time the effect becomes obvious, it is too late to reverse. Tighten too mucb now and a sharp slowdown next year may become unavoidable. Tighten too little and an inflation overshoot becomes equally unavoidable.

In this situation, it is hest perhaps to continue with modest upward movements in interest rates.

Patrick Foley,
group economic adviser,
Lloyds TSB Group,
71 Lombard Street,
London EC3P 3BS,
UK

Share stake gives bigger incentive

From Mr Leon Boros.

Sir, While it is true that high-tech companies in the US are rapidly discovering the advantages of paying their employees with equity, as stated in your article "A rich slice of Silicon pie" (July 7), an increasing number of UK companies are following suit. In fact, legislation in the UK for employee share ownership plans, or Esops, is in many ways better than in the US.

Esops and other employee share schemes are being adopted in the UK by a wide range of private and quoted companies – and not purely as an altruistic measure. Employee ownership can attract and retain high calibre staff and instils a sense of responsibility and ownership among employees.

In fact, our UK Employee Ownership Indexer, which measures the relative share price performance of quoted companies with a significant degree of employee share ownership, outperformed the main market index hy more than 89 per cent in the last five years.

Leon Boros,
director,
Capital Strategies,
Michael House,
35-37 Chiswell Street,
London EC1Y 4SE, UK

US arrival fees a tax by another name

From Mr Alex McWhirter.

Sir, Nancy Dunne's statement "There is no arrival tax" in the US is not strictly true ("US seeks to hoost tax on air travellers", July 10).

For several years every passenger flying into the US has had to pay a total of $13.95 in arrival "taxes".

These are shown separately on the ticket and added to the cost of the air fare. They are as follows:

- Immigration fee $6;
- Customs fee $6.50;
- Animal and plant health inspection fee $1.45.

The US is surely the only country in the world where visitors have to pay for their own customs and immigration clearance.

Alex McWhirter,
technical editor,
Business Traveller,
Compass House,
22 Redan Place,
London W2 4SZ, UK

Hard economics of creating synthetic oils from gas

From Dr William M. Sackinger.

Sir, Your discussioo of the conversion of natural gas into hydrocarbon liquids ("Gas into liquid gold", July 4) is technically eccurate but leaves out some important economic points. Your emphasis is that the product would be a quality fuel, to be burned, suggesting that it might compete fevourably with liquid fuels refined from crude oil.

Remember that Germany (during the second world war) and Sasol (during the boycott of South Africa) operated under distorted economics without the requirements of replacing depleted reserves, exploration drilling, taxes, profits, and competing crude oil at world prices. The expenses of synthetic oil plant construction, operation, maintenance, interest, depreciation, taxes, and return on equity investment may just barely be covered with an oil price of US$25 at the refinery gate.

But the leading oil companies of the world will not become engaged in these veotures on those terms, because they are routinely developing new reserves of crude oil in Alaska and elsewhere for an incremental investment of about US$3 per barrel, and are encircling reserves in the Commonwealth of Independent States for less than about US$1 per barrel. Adding transport costs of US$6 per barrel for long pipelines, or US$2 per barrel for tanker linkages to the refinery, they still have the remaining US$9-$12 per barrel to operate the company, find, acquire, drill and produce more crude oil, pay taxes, and pay dividends.

Natural gas is regarded as a premium fuel in the oil industry, deliverable either to a pipeline network or as liquid natural gas, both methods yielding a good profit margin. The more profitable economics of conversion of oatural gas to methanol, or to ethylene, thus feeding the petrochemical chain, have been best illustrated in Saudi Arabia where Mobil, jointly with Sabic, produces plastic products worth five to 10 times more, per tonne, than combustion fuels. Our own company's plasma conversion process, for example, can produce synthetic crude oil but is being developed directly to coovert either natural gas or refinery residual oil into ethylene, a product with three times the value of combustion fuel. "The best substitute for crude oil is . . . crude oil itself".

William M. Sackinger,
president and chief executive,
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Fairbanks,
Alaska

Personal View · Tessa Jowell

Strong signals on smoking

A package of measures will reduce the UK's consumption of tobacco

Smnking causes 120,000 premature deaths a year in tbe UK alone, a jumho jet full of people every day. The latest Office of National Statistics survey sbows that 28 per cent of boys aged 15 are now regular smokers, and 33 per cent of girle. Among the girls the trend bas been upwards for several years.

My job as minister for public health is to do something to helt and reverse the trend. I dread the thought of today's trendy young immortals filling tomorrow's cancer wards.

So tbe question is not whether we do something but how we do it, and how effective we can make it. I start from the proposition, barely recognisable in our predecessors' policy, that it is for the government to take the lead, that there is a role for government to do what only government can do.

But local and community actioo is irreplaceable, and ultimately it is the informed decisions of responsible individuals which will win the day for better health policies in this as in many other areas.

Today we are holding a summit nn tobacco. We have an election manifesto commitment to ban tobecco advertising, but our ambitions go much wider than that.

We want to put together a wide programme of measures which will change the position nf tobacco in the puhlic mind. There is no single measure which will be completely effective nn its nwn, althougb the removal nf tobacco advertising and promotion would ohviously be significant.

The tohacco companies like to say thet the purpose of their edvertising is simply to encourage existing smokers to change brands. But it heggars belief that tbe massed talent of the tobacco advertising business is not also concerning itself with replacing the millions of customers killed by tobacco every year around tbe world.

The chief economic adviser to the Department of Healtb, reviewing 212 studies from many countries in 1993, concluded that tobacco advertising hans in Norway, Finland, Canada and New Zealand had clearly brought about a fall in smoking.

Nor am I impressed by the commercial free speecb argument. Where the law can be invoked to safeguard a reputation, it can surely be invoked to save people from premature death.

Moreover many beneficial pharmacological substances are subject to stringent publicity controle, so why sbould the euppliers of a purely noxious substance bave greater rights than those who make products which do good?

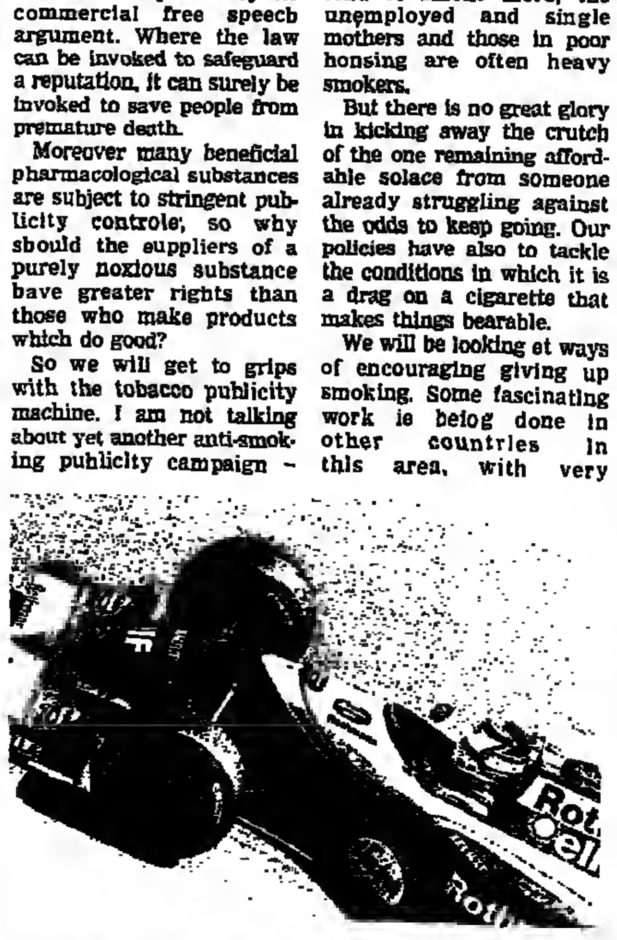
So we will get to grips with the tobacco publicity machine. I am not talking about yet another anti-smoking puhlicity campaign – putting publicity against publicity. I want to change the balance of power in this area decisively towards the public interest, and to make the recruitment of new, young smokers as difficult as possible.

Of course there are important beneficiaries of tobacco advertising particularly in sports and the arts. Our summit will provide a basis for the white paper on smoking reduction which will look carefully at how we can achieve our aims witbout damaging sport and the arts.

As in so many public health issues, one quickly comes acroee glaring socio-economic inequalities. The pooreet among us tend to smoke more; the unemployed and single mothers and those in poor honsing are often heavy smokers.

But there is no great glory in kicking away the crutch of the one remaining affordahle solace from someone already struggling against the odds to keep going. Our policies have also to tackle the conditions in which it is a drag on a cigarette that makes things bearable.

We will be looking et ways of encouraging giving up smoking. Some fascinating work ie beiog done in other countries in this area, with very encoureging results.



Driving home the message: the aim is to safeguard sport Allsport

We will need to look at the permitted levels of nicotine, so as to reduce the potency of the addiction. We will look at the role of public education, and the issue of pessive smoking and the rights of non-smokers.

We must ask why 16-year-olds can buy cigarettes, hut only 18-year-olds can buy alcohol; and we should look at the sort of information that cigarette packets sbould carry as well as the prominence of the healtb warning.

Then there are iseuee about tbe availahility and dieplay of cigarettes in supermarkets and shops, and the ease of access of young people in particular to vending machines, from which they huy most of their cigarettes. And, of course, there is the impact of fiscal measures on tohacco consumption.

There is a European dimension to tbese problems. A draft directive on tobacco advertising has been on the table for years, blocked by the previous UK government among nthers.

We share the broad aims of the draft directive, although we think it can he improved in a number of respects to meet our concerns particularly about safeguarding sport and the arts, and our determination that any measures in this area should be workable and effective.

What we will come up with, therefore, is a package of measures which, taken together, will substantially reduce the consumptiou of tobacco, particularly among the young.

They will be measures which go with the grain of what the public think is fair and reasonable and they will enable us to do the right thing by those who smoke, those who don't and those who do hut wish they didn't.

The author is UK minister for public health

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FINANCIAL TIMES

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Monday July 14 1997

Trouble on the line

The planned merger between British Telecommunications and MCI may yet survive their tiff over the US company's unilateral decision sharply to raise its investment spending, thereby lowering profits. But the incident hardly augurs well for the partners' future relationship. It also increases doubts about the fashion for strategic cross-border alliances which has recently gripped large telecommunications carriers, particularly in the US and Europe.

Initially, anti-trust watchdogs were concerned that the trend might inhibit the growth of international competition. Such worries now seem exaggerated. Indeed, the biggest qnestion raised by the alliances may not be whether they pose a threat to open markets – hut wbether they can be made to work at all.

Only two months ago, Telefónica of Spain rocked AT&T-Unisource, an alliance between the largest US carrier and sevaral European operators, hy defecting to Concert, the rival BT-MCI venture. That marked a *further reverse for the international* ambitions of AT&T, which sought solace in its home market by trying unsuccessfully to merge with SBC, a regional telecoms company.

Such travails are not unique to the telecommunications industry. Countless other companies have found that ambitious plans for cross-border co-operation can stumble on incompatible corporate objectives and cultures. The risk is particularly high when managemeot responsibIlity is shared equally between partners.

In telecommunications, however, the challenges run deeper. Most telecoms carriers – even MCI – are products of an era when the industry was operated as a universal service by all-powerful national monopolies. They hava been slow to abandon their traditional, vertically-integrated structures and still rely overwhelmingly on revenues generated at home. AT&T's flirtation with SBC suggests it still yearns for the old model, after being shorn of its local affiliates in 1984.

True, former monopolies bave so far coped without radical structural change: more than a decade of competition has not removed BT's and AT&T's dominant market shares. However, technology and falling costs are continuously lowering entry harriers into the industry. Small, nimble newcomers, often focused on narrow market niches, are increasingly setting the terms of competition. Further ahead, the internet promises to evolve into a mass-market telecommunications network, offering global connections at bargain-basement prices.

It is not obvious that large *telecoms companies with relatively* high costs, elaborate structures and universal service traditions are well-equipped to meet these challenges. And whatever happens to the BT/MCI merger, it is even less clear thet other strategic alliances, mostly involving national champion companies thet sbare many organisational and competitive weaknesses, offer strong platforms from which to launch aggressive and successful global businesses.

Competition regulators and telecommunications users need lose no sleep over these uncertainties. For the telecoms companies and their shareholders, it could be a different story.

Patriot games

Spain and the UK are at odds on Gibraltar, and on fish. But they should sympathise with each other's troubles in confronting extreme nationalism in, respectively, the Basque country and Northern Ireland.

Basque and Irish nationalism are both movements with deep historic roots, which have realised most but not all of their historic aims. Irish nationalism has an independent state in 26 out of 32 counties on the island to which it lays claim. Basque nationalism enjoys extensive autonomy, with its own parliament, police and law-courts, but still within the Spanish state.

In both cases the mainstream nationalist movement, backed by a clear majority of the nation in whose name it speaks, is content to exercise the power it has won and to seek any further advances by constitutional and non-violent means. In both cases a small minority rejects this compromise and insists on continuing a violent struggle. And in both, the constitutionalist majority, while repudiating the minority's methods, is prone to blame the historic oppressor for failing to resolve the conflict, or for keeping it alive by wbat are seen as unduly harsh counter-terrorist measures.

Every now and then a specific atrocity so shocks the wider nationalist community that the terrorist movement finds itself completely isolated. Such moments, one of which occurred in the Basque country this weekend, offer the best hope of defeating violence, since this can only be done wben the terrorists' own communities are willing to co-operate in repressive measures against them. Nationalist leaders can get awey with taking measures against their own side which they would bitterly denounce if taken by an "alien" government. In the end only constitutional nationalism can defeat the IRA, and only the Basque government can defeat Eta.

So far both terrorist movements have always been saved from *this fate* by the reactions they succeeded in provoking from the other side, and consequent reflexes of solidarity on their own. Last week leaders of the Orange Order (the "other side" in Northern Ireland) for once recognised the trap, and just avoided falling into it. Any hope of peace to the province depends on them continuing this self-restraint. Any bope of peace in the Basque country depends on similar self-restraint by supporters of the Spanish government.

Floating free

There are grounds for both relief and concern in the Philippines' decision to allow its peso to float.

Relief is due because the Philippines has sensibly followed Thailand in loosening the link between its currency and the dollar. Concern is called for because the sharply lower exchange rate suggests south-east Asian governments may draw a false conclusion that devaluation offers an easy cure for slower growth.

For too long, these governments hava tried to maintain a broadly stable exchange rate against the dollar. In the boom of 1994 and 1995 this caused an unhealthy surge in domestic liquidity as they tried to resist upward pressure on their currencies in the face of heavy capital inflows. More recently, as the cycle has turned, it has led them to maintain an overly tight monetary policy to avoid seeing their currencies fall.

Speculators who have forced Thailand and the Philippines to abandon the struggle – and who may now have a go at Malaysia too – will have done the region a favour if the result is more flexible policies which confer on central banks greater freedom over domestic monetary policy. One glaring lesson from recent events is that Indonesia, which has allowed its currency more leeway to adjust, has been relatively untouched by speculative fever.

The risk is that Asia may enter an era of competitive devaluations as countries position themselves to attract foreign investment. A cheap currency may offer an illusory impression of cost advantage. Ultimately it will do little to guarantee competitiveness, especially since high technology products, into which Asia is incraasingly diversifying, require a large measure of imported components.

Devaluation may simply end up delaying the process of adjusting away from dependence on traditional, labour intensive industries like textiles and shoes. Instead, Asia needs to concentrate on structural reforms.

Enhanced competitiveness requires upgraded skills, private sector investment to remove infrastructure bottlenecks, more effective banking supervision and financial sector development that leads to less waste in the deployment of savings. There is something wrong when countries with such high savings rates still rely so heavily on imported capital.

Investors reap whirlwind

John Authers on the flurry of activity in bonds that are linked to the risk of catastrophes, such as hurricanes or earthquakes

In the past few weeks, Wall Street bond investors have stepped into soma unfamiliar territory. Bonds issued by USAA, a large domestic insurer, will pay handsomely – unlees a burricane bits the eastern seaboard; repayments on bonds baing marketed by Swiss Reinsurance are vulnerable only if there is an earthquake in California.

These are both "catastrophe bonds", which aim to securitise large risks that are traditionally borne by insurers. "We believe insurance risks will ultimately be securitised, just as banks do with mortgages," says Ms Jeanne Dunleavy, of A.M. Best, a US insurance rating agency.

Wall Street investment bankers believe such bonds could provide their most lucrative new source of income since the advent of securitised mortgages in the mid-1980s. They could also revolutionise the US insurance industry, which is still reeling from a series of natural disasters.

The idea of the new securities is to package risks of one-off events that are hard to price actuarially, such as hurricanes, tornadoes or earthquakes. Repayment of interest, and in soma cases capital, is tied to such a risk: investors would lose in the event of an earthquaka, but would otherwise benefit from a *better than average return*.

The coocept has been mooted for some time, but until recently few deals had been completed to spite of determined salesmanship by Wall Street's most powerful investment banks. Bankers hope the recent flurry of activity signals a shift in attitude.

"This is really the spark which is igniting things," says Mr Robert Litzenburger of the fixed income researcb department et Goldman Sachs. He points out that the USAA deal was twice subscribed. "Everyone who purchases one type of exposure to natural catastrophe is e potential investor in new securities because they are looking for diversification within that asset class."

USAA tried unsuccessfully to sell hurricane bonds last year. This year, it improved the terms *substantially. It also* offered a more flexible structure. It employed three of Wall Street's most powerful investment banks – Merrill Lynch, Goldman Sachs and Lehman Brothers – all of which were keen to prove that such a deal could be pulled off.

Insurers' need for a new source of capital has been clear since Hurricane Andrew hit southern Florida in 1992. Insurers were left with a bill of $15.5bn, the highest the industry has ever had to foot. More worrying still, Andrew was technically a "near miss"; had it been stronger and hit Miami's most expensive residential areas, it could have cost insurers nearly $50bn.

Since Andrew, the US has suffered a series of severe weather events, as well as 1994's Northridge Earthquake in southern California which cost insurers about $7bn. Estimates of insurers' vulnerability vary. The New York-based Insurance Services Organisation believes a $50bn catastrophe could leave a third of all US insurers insolvent.

Such calculations have led the securities industry to believe that an opportunity exists. While the total capital of US insurers is about $260bn, according to A.M. Best, this is tiny compared with the trillions of dollars of securities traded in the world's capital markets. A small share of this buge pool would be enough to help insurance executives sleep at night, bankers say.

Picture from film Twister (Moviestore)

An ill wind: the aim is to package the risk of events such as tornadoes that are hard to price actuarially

Capital markets have made several attempts to supply this need. The Chicago Board of Trade opened a catastrophe exchange in 1992, the year of Hurricane Andrew. Trading was slow to take off, bnt by the end of last year the number of catastrophe-based options open had reached 10,000 for the first time.

The biggest catastrophe bond issue came early this year with a $1.5bn offering from the California Earthquake Autbority, a public agency, which was bought in its entirety by Mr Warren Buffett, the highly successful US investor. His backing gave the concept a strong vote of confidence, but robbed the new market of a big new public offering.

Public sales of such bonds have been much smaller. The biggest was a $68.5m issue from St Paul Re, a large US reinsurer. Repayments of interest were tied directly to the company's underwriting performance.

In Europe, the Swiss insurer Wintertbur raised SFr399.5m ($275m) for a bond tied to the damage caused to cars by bailstorms.

Several more ambitious issues have failed to attract enough interest. But in tbe long run investment banks are confideot that catastropbe bonds will become popular with inventors, primarily because they offer diversification. "This is one security that bas absolutely no correlation with interest rates," says one banker. "Alan Greenspan [Federal Reserve cbairman] can't touch them," be adds.

Advocates of catastrophe boods say it is only a question of fine-tuning the products. Parallels with securitised mortgages are often made. "Mortgage-backed securities ... went through the sama kind of lack of interest for an extended period," says Tillinghast Towers Perrin, an actuarial consultancy. "Traders needed to attack the market with missionary zeal."

Banks bave oot yet ironed out all the wrinkles. The first is expense for tbe insurers. Tbe legal and administrative costs of launching a security with no prototypes are prohibitive. St Paul Re had to set up a separate, single-purpose reinsurance company to take its funds, while USAA oeeded a shelf company in Bermuda.

Meanwhile, tbe reinsurance industry bas righted itself after the problems that followed big burricanes at tbe start of the 1990s. Reinsurance is more readily available. "You can transfer risk of almost any kind at the momeot extraordioarily inexpensively," says Mr Ian Smith, chief executive of Marsh McLennan, the world's largest insurance broker. "And companies are self-insuring more. That makes it very difficult for the capital markets to compete."

Another problem for catastropbe bonds is that investors do not know how to value them. Traditional bond investors do not have the actuarial skills to assess insurance risk. Neither is it obvious how they would deal with what is effectively a new class of securities that does oot fit within any of their existing investment parameters.

This suggests that insurers will not be made redundant by securitisation. Their long-term future would be to value boods and build portfolios of risks. "There's a need for someone to aggregate the risks," says Mr Dennis Chookaszian, chief executive of CNA Financial, a Cbicago-based insurer. "And I call that an insurance company."

Mr Hank Greenberg, chief executive of AIG, the largest US insurer, believes the establishment of indices to measure the expense of catastrophes is crucial for the market. His company is investing in research to create sucb benchmarks.

Insurers also differ on whether risk sbould be tied to a specific event, as is the case with some derivatives traded in Cbicago; alternatively, risk could be linked to an index of damage for the industry as a wbole, or to ao individual company's performance.

The best way to convince the doubters, many believe, is to cut tbe price. Mr Keitb Hynes, chief financial officer of Reoaissance Reinsurance, a Bermuda company specialising in catastrophe reinsurance, says iosurers will have to pay more to get the market going: "You are going to have to see decisions by insurance companies' management to pay more tban tbey think tbey sbould for tbese securities. I don't think they want to do that." He points out that USAA beavily increased the yield oo its bonds before it was able to sell them.

Mr Greeoberg of AIG agrees. "Until the price changes, it's just going to be nibbling around the side. There's a lot of capital markets capital to come in but not at the pricing which currently exists."

Wall Street appears to accept this. Mr Litzenburger of Goldman Sachs says USAA was initially unsuccessful "broadly because [the deal] was offered as cheap reinsurance. Investors asked if they were being paid as much as the professionals who understood the market better. When they saw it was priced at less than reinsurance, tbey shied away. This time they were fully paid and reacted very differently."

Insurers are not coovinced. When insurance executives were polled by the Insurance Information Institute in New York earlier this year, 86 per cent said that the securitisation of insurance risks would prove to be a fad.

Mr Hynes of Renaissance Re suggests insurers will only take catastrophe bonds seriously when they suffer another buge loss. "You'll then see a similar supply and demand shift like after Hurricane Andrew," be says. "The next catastropbe of major proportions will be what launches these securities."

· OBSERVER ·

Going out of print

■ Nomura Securities has taken another big step towards breaking links with *sokaiya* corporate extortionists: by cancelling all its magazine subscriptions.

After the law on making direct payments to *sokaiya* was tightened a few years ago, many gangster groups went into publishing. Their persuasive salesmen offer subscriptions to magazines and newsletters. They're priced competitively, of course: the going rate is about $2,000 for a few sheets of paper every month.

Nomura spends about Y70m a year on subscriptions to 700 publications: it's being coy about the content of some of the pricier prints, thought it does admit that they're "not very useful". The company is now cancelling subscriptions to all publications until it works out which are genuinely useful and which are linked to the racketeers.

It's a bold move. Getting off the Readers' Digest mailing list is child's play by comparison with cancelling a *sokaiya* magazine subscription. Rather than a torrent of boring but harmless junk mail, *reminders* often take the form of loudspeaker trucks blasting out patriotic songs outside your headquarters, and can escalate to threats against executives.

Bicycle Bill

■ Not everyone wants to watch wall-to-wall media coverage of a visit from the US president: especially in bike-conscious Denmark while a local lad is pedalling in a big race.

Public broadcasting channel TV2 had planned live coverage of the weekend's first visit to Denmark by a US president. But it smartly switched after protests from cycling enthusiasts who wanted to watch 1996 Tour de France winner Bjarne Riis in this year's event.

Bill Clinton didn't escape the invitation to a less strenuous bike ride – a photo-opportunity becoming a regular feature of life for world leaders. He was presented with a souped-up version of the bikes available for loan around Copenhagen, but his wonky knee gave him tha ideal excuse not to get straight into the saddle.

Clinton had dropped in on his way back from the Nato summit to speechify about how lucky the US was to have such splendid allies, with some chat about significant Danes – including *Hans Christian Andersen* "who teaches our children that emperors sometimes have no clothes". Not a lesson any world leader should forget.

Core question

■ Ask not whether departing Apple chairman and chief executive Gil Amelio jumped or was pushed: ask who did the pushing. It's clear from Apple's new management line-up that co-founder Steve Jobs, who returned from a decade in exile when be sold Apple his company NeXt Software last year, is exerting more and more influence in the company.

Speculation in Silicon Valley is that Jobs used his renowned powers of persuasion to encourage Apple's usually cautious board to ask for Amelio's resignation. Jobs was himself forced out of *Apple in a* boardroom coup in 1985 after trying to oust the then chief executive John Sculley. Practice makes perfect.

Going for broker

■ John Marcopoulos, the pushy but personable stockbroker who in 1990 set up Sigma Securities, Greece's first private brokerage, has sold 30 per cent to fast-growing Bank of Piraeus.

Sigma is far and away the *biggest player on the Athens* stock market. But Marcopoulos could see how the wind was blowing – with 60-odd brokerages in competition, companies controlled by banking groups are gaining ground.

The sharp-eyed Greek businessmen who bought Piraeus Bank in a 1992 *privatisation deal* have been looking for a foothold in Greece's expanding capital market. With tha Sigma boss aboard, they can look forward to a lively ride.

Marcopoulos is popular with punters for his ability to push orders through. But his abrasive style annoys the mild-mannered professors who run both the stock exchange and the watchdog Capital Markets Committee. With the resources of a bank behind him, Marcopoulos can push for faster *modernisation of the bourse*.

Other ranks

■ In protocol-obsessed France, the order in which ministers appear in *the official list is* closely watched. So Observer hopes that the latest pricey booklet doeso't completely reflect government priorities: for example, economy, finance and industry minister Dominique Strauss-Kahn lags in a poor sixth place, while *budget* minister Christian Sautter is 22nd out of 26.

The Financial Times

100 years ago

Locusts In Argentina

The Argentine Government appear at last to have become awake to the necessity for a serious effort to rid the country of the locust pest, which threatens to ruin the agricultural industry of the country. Hitherto they have confined their efforts in this direction to the appointment of very inefficient, though costly, extermination commissions, which accomplished nothing. Now, however, the Chamber of Deputies at Buenos Ayres has, we understand, given the Executive "carte blanche" to deal with the evil, and we hope to see some really practical and well ordered attempt to rid the country of the plague.

50 years ago

Export Fallacy

It is a favourite Socialist argument that the United States must "export or bust". It follows therefore that the Americans ought to be *delighted* to finance other countries to purchase their wares. This wishful dream overlooks the fact that America has plentiful opportunities for vast public works schemes at homa. Contrary to general belief, every American has not an expensive home and a motor-car.

FINANCIAL TIMES
Monday July 14 1997

ICI set to announce $3.4bn DuPont deal

By David Blackwell in London and Tracy Corrigan in New York

Imperial Chemical Industries is poised to announce this week the sale of most of its indnstrial chemicals operations to DuPont, the largest US chemicals company.

The disposals, which might realise up to £2bn ($3.4bn), follow last Friday's sala of a 62 per cent stake in the company's ICI Australia offshoot for £1bn. That would mark an early completion of ICI's £3bn disposal programme, planned following the £4.9bn acquisition of Unilever's speciality chemicals businesses, completed last Tuesday.

The deals mark a shift in ICI's business, away from the bulk commodity chemicals area, and towards the higher margin speciality chemicals business. Proceeds from tha sales would also help to cut the debt taken on to fund the Unilever acquisition, and would bolster ICI's interest cover above two times.

Among the businesses being lined up for DuPont is understood to be Tioxide, which makes titanium dioxide for use in paints and plastics. ICI, which was considering a flotation for the business, has estimated its net asset value at £700m, but analysts have forecast a selling price of about £500m. DuPont is the world's largeet producer of titanium dioxide with a market share of 25 per cent, compared with ICI'e 14 per cent.

The early disposal of the industrial products divisions would be a personal triumph for Mr Charles Miller Smith, ICI's chief executive, who was recruited from Unilever three years ago. He adopted a strategy of moving towards consumer chemicals, and away from the industrial products that have been the group'a backbone in the past.

The group'e initial approach to Unilever for its speciality chemicals was rejected last year. But success came last week, bringing ICI a division with sales last year of £2.93bn, making chemicals for specific uses such as coatings for the Pentium chip and the glue for disposable nappies.

These fast-growing areas are far more profitable than ICI's traditional plastics, polyester, fertiliser, chlorine and explosives businesses.

ICI sold its nylon business to DuPont in 1993. The purchase of that business was cited in DuPont's 1996 annual report by chief executive officer Mr Jack Krol as an example of a successful acquisition because "it filled a gap in an already strong business".

DuPont is widely expected to undertake its own restructuring programme this year. Some analysts predict it will sell its oil and gas business, Conoco, which helped drive record profits last year.

The company has also said it is building up its life sciences area. Last year, DuPont created a separate life sciences division made up of its agricultural products and pharmaceuticals businesses. According to analysts, the business could oltimately be spun off.

See Lex

Heart will soon be grown in lab, biotech group says

By Roger Taylor

Ms Gail Naughton, president of Advanced Tissue Sciences, the US biotech company, believes she will soon be able to grow a human heart in a box in her laboratory at La Jolla, California.

The company, which already sells artificially manufactured hnman skin, recently announced it had grown a human finger joint from a few cells. It has also managed to grow heart valves, heart musclee and blood vesseis. Ms Naughton says it is only a matter of time before the company grows a complete heart.

ATS's techniqne, co-invented and patented by Ms Nanghton, uses chemical "scaffolds" to shape growing hnman tissue. A few cells are planted on the scaffold and fed with nutrients.

The key to growing durable organs is to recreate conditions in the human body, Ms Naughton says. When ATS scientists grow a ligament, they stretch it so it grows strong. Cartilage is put under pressure to make it tough, while arteries, she says, pulsate in their boxes as they grow.

Scientists, including Professor Robert Langer of the Massachusetts Institute of Technology, say most of the technology needed to create a bio-engineered hand or arm is already in place. The main difficulty is regenerating nerva tissue. Researchers are investigating using microchips as an alternative.

Complex internal organs are also far more difficult to replace than external cartilage and skin.

But researchers are optimistic abont tha potential of tissue engineering. Prof Langer has raised the prospect – in 20 or 30 years' time – of an "artificial womb" which would sustain premature babies for several weeks.

ATS has started with skin and joints because there are fewer problems with tissne rejection. Its first skin product, Dermagraft, has not yet been approved for sale in the US but has just gone on sale in the UK, marketed through a joint venture with Smith & Nephew, the healthcare group. It will be used for the treatment of diabetics' foot ulcers.

The next product due for launch is cartilage, which could be used to treat sports injuries. In due course the company aims to supply complete joints in a range of sizes to suit all, rather than tailor them for each patient.

Tissue can already be taken from a patient, grown in the lab and replanted, but this takes time. ATS hopes to supply off-the-peg tissue and organs for fast treatment.

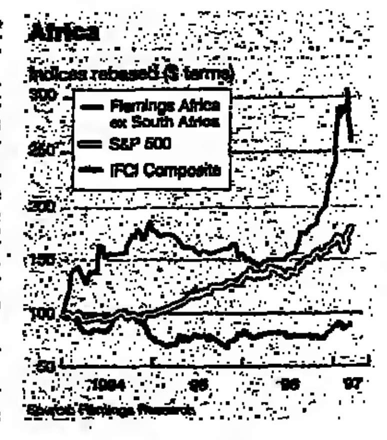
THE LEX COLUMN

Into Africa

Africa remains the poor relation of emerging markets – famous for famine and civil war rather than mouth-watering returns. The past week has dons little to change this image: Kenya has been wracked by civil disturbance, while South Africa was voted riskiest of the main emerging markets. Yet some intrepid investors have profited handsomely – Zimbabwe's stock market rose 92 per cent in dollar terms last year and Botswana is up some 55 per cent in 1997. Are bad politics obscuring a decent investment story?

Up to e point. While Africa's long and wretched legacy of economic mismanagement has not been erased, falling budget deficits, lower infletion and higher growth all reflect improved economic governance. This is making Africa a more appealing destination for direct investors. Increasing liberalisation of financial markets, including stock market reforms and growing acceptance of privatisation, has also lured portfolio investors. Poor liquidity remains a big bug-bear, but increasing money flows are themselves part of the solution: by driving up prices, they make privatisations, new issues and corporate unbundlings more attractive.

Africa remains a hard sell, and for good reasons. The flip-side of "gee-whiz" returns is higher risk than investors face in other leading emerging markets. But economic reforms have improved the quality of company earnings, allowing higher valuations. Some markets, such as Zimbabwe and Kenya, have already enjoyed re-ratings. But others, such as Mauritius and Botawana, still offer good value for the brave.



Thyssen/Preussag

Thyssen is clearly developing a taste for restructuring. Having been bounced into a merger of its steel activities with Krupp earlier this year, the German engineering group is now talking to Preussag, another of its rivals, about combining their shipbuilding operations.

A merger would creats Germany's biggest shipbuilder, with turnover approaching DM4bn ($2.20bn), strong technology and design skills and potential for big cost savings. Moreover, the two already co-operate on naval ships. That business, with a DM5bn order book and an 80 per cent world market share in non-nnclear submarines is nicely profitable and should be relatively easy to merge into a single entity.

The problem lies on the commercial side. In a market dominated by the Koreans and Japanese, European shipyards face a huge cost disadvantage – as demonstrated by the bankruptcy of Bremer Vulkan last year. While both Preussag and Thyssen are intent on maintaining a commercial presence – if only to maintein a skills base during droughts on the military side – Preussag has done more to restructure. The productivity of Preussag's smaller, commercial shipyard, measured in sales per employee, is two-thirds higher than that of Thyssen's two yards. Thyssen may therefore have to rationalise its operations ahead of any deal. Another option might be to bring in a third partner – say, one of eastern Germany's surviving yards – to increase economies of scale. A clean solution may still be some time eway. But the logic for a merger should provs overwhelming in the end.

ICI

Can Imperial Chemical Industries sell as boldly as it bought? When it purchased Unilever's speciality chemicals businesses for £4.9bn ($8.28bn) in May, ICI's management outlined a tempting vision: transformation from a cyclical, bulk chemicals producer to a more highly rated, speciality and consumer products group. But as it paid top dollar for the Unilever businesses, the real test of whether this strategy will add value for shareholders lies in how much ICI gets for the dowdier parts of its empire.

The apparently imminent disposal of most of its industrial chemicals operations to DuPont for £2bn sounds like a good start. Excluding the performance chemicals unit, which ICI probably wants to keep, this division had turnover of £3.5bn last year and is currently loss-making. Assuming DuPont buys the lot, the mooted price amounts to nearly 60 per cent of sales. As ICI as a whole is only valued at 54 per cent of revenues by the stock market, that seems more than fair. More important, the speed with wbich ICI is acting should raise confidence in its management, led by Mr Charles Miller-Smith, chief executive. And, coming hard on the heels of the £1bn disposal of its Australian arm, such a big sale would ease the strain on the UK group's heavily indebted balance sheet.

Shorn of its bulk businesses, ICI would be left with a portfolio composed largely of speciality chemicals, painte and materials – less capital-intensive, more cash-generative and deserving a higher rating.

Ionica

New UK telecoms issues have to approach the market with some modesty following the disastrous cable television flotations in 1994/5. That is certainly the lesson learnt by Ionica, which provides fixed telecoms lines via radio. Its shares are being offered at a 45 per cent discount to the mid-point of the valuation range put on them by its broker, SBC Warburg, in a discounted cash flow (DCF) calculation.

Sucb caution seems sensible. Investors have been burnt by new issues launched on optimistic DCF valuations, and Ionica has even less of a track record than the cable companies did when tbsy were floated. Moreover, the company has special reasons for pricing the offer to succeed. Last year, a fund-raising exercise in the US high-yield debt market went much less well than expected. Ionica had to delay its roll-out programme to conserve cash and placed equity with private investors st a lower price than the previous tranche had raised.

The net effect is that the offer price of 370p-390p looks attractive. This may seem a healthy premium to the 240p private investors paid earlier in the year, once the implied value of warrants sold at the same time is stripped out. But Ionica is no longer on the back foot financially and has more evidence that customers are prepared to pay for its service. That said, the project is still barely out of its venture capital phase. So it is only right that investors are being lured with the prospect of high rewards.

Brussels warning

Continued from Page 1

level of EU spending et 1.27 per cent of the total gross national prodnct of the EU between 1999 and 2006 to cope with enlargement.

It also suggests allocating about Ecu45bn of aid to the new members as part of a total regional aid budget of Ecu275bn, against Ecu200bn between 1993 and 1999.

On the common agricultural policy, the European Commission is calling for a sharp reduction in intervention for the beef, cereal and dairy sectors, in an attempt to shift EU food prices to world levels. This would be offset by more direct aid to producers, leading to an increase in spending on farm eid, at leest in ths short-term.

China arms

Continued from Page 1

seas defence-related electronics firms is considered crucial to ensure rapid technical renovation of the PLA."

China has relied on Russia as its chief foreign supplier of arms since 1989, bnt is thought to be eyeing European manufacturers of jet engines to npgrede its military aircraft.

The military, whose budget was increased by 12.7 per cent this year, is also understood to be looking for more sophisticated air defence systems and possible assistance in developing its navy.

Half of inward investment goes to US and UK

By Guy de Jonquières

The US and Britain received more than half ths inward direct investment reported by members of the Organisation for Economic Co-operation and Development last year, when both countries recorded big increases in inflows.

Foreign direct investment in Austria and Ireland was also sharply higher than in 1995. Bnt the OECD said inflows into most other member countries were lower, with particularly big falls in Australia, Canada, Denmark, Germany, the Netherlands and Sweden.

Separately, the United Natious Conference on Trade and Development said worldwide foreign direct investment inflows rose 10 per cent to $349bn last year.

Although growth was much slower than in 1995, when inflows increased 33 per cent, 1996 was the fifth consecutive year of expansion.

The OECD said foreign direct investment flows were increasingly related to privatisation and mergers and acquisitions. It estimated worldwide privatisation receipts last year at a record $88bn, of which $68bn came from OECD countries.

Cross-border mergers and acquisitions, the worldwide value of which was estimated at $263bn last year, accounted for much of the inward investment into the US and Britain.

The OECD said countries' openness to M&A and the nature of their business cultures were often more important than government policy in determining their attractiveness to inward investment.

According to the OECD, inflows into Britain, which rose from $22.8bn in 1995 to $32.8bn, accounted for about 40 per cent of all inward direct investment reported by European Union members last year.

Inflows into tha US rose from $60.2bn to $89.3bn, but total inflows into OECD members fell from $215.1bn to $198.3bn. Germany reported disinvestment, after attracting inflows of $12bn in 1995.

The US and Britain were also by far the biggest sources of outward direct investment. Outflows from the US, at $88.3bn, were lower than the $96.5bn in 1995, but outflows from Britain reached e record $43.7bn, np from $42.7bn in 1995.

The OECD figures, whicb are preliminary, are based on data for all the organisation's 29 members except Greece and Switzerland.

Financial Market Trends, June 1997. OECD, 2 rue André Pascal, 75775 Paris Cedex 16. Tel: 331-45 24 82 00. Fax: 49 10 42 76. E-mail: Compte.PUBSINQ@oecd.org.

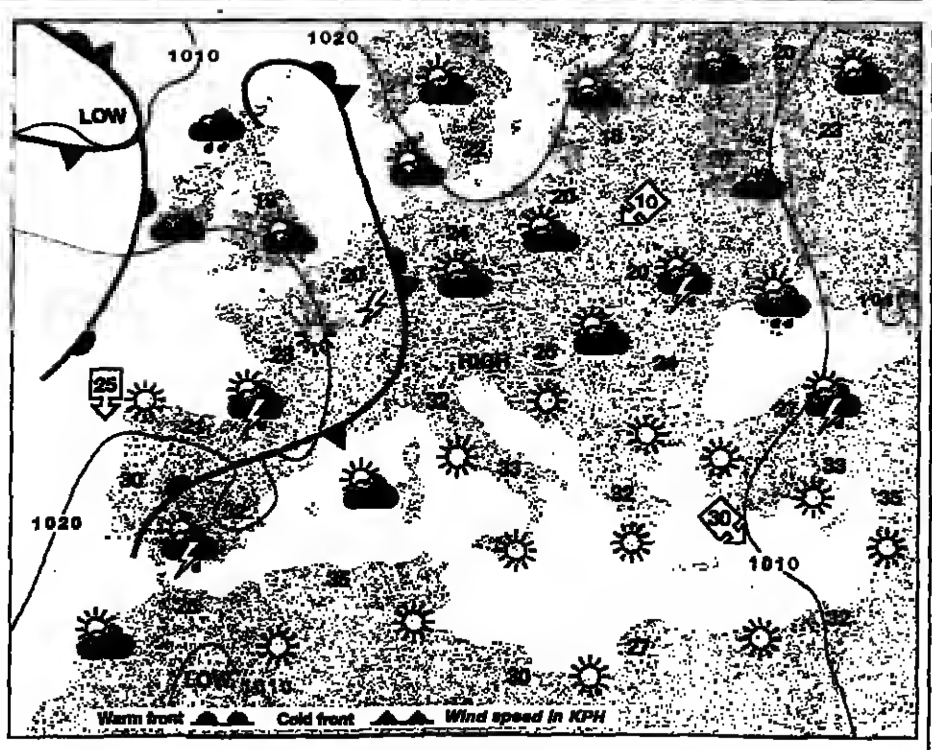
FT WEATHER GUIDE

Europe today

Most of southern Europe will remain sunny with comfortable humidity. A disturbance over Spain will produce thunder showers in the south-west and over southern Portugal. More thunder storma will develop on a frontal zona running from southern France towards western Germany. Widespread rain in the Alps will bring the risk of local floods.
Behind the front, conditions will clear but another area of cloud and rain will approach Ireland from the west. Cloudy conditions with local showers and thunder will cover most of Russia and the eastern Balkans. It will be fair and mild in northern Europe.

Five-day forecast

Thunder storms will move slowly towards Austria and the Czech Republic on Tuesday and Wednesday.
Weak disturbances will produce patchy cloud over western Europe, with some local thunder showers. These will also develop in Portugal and western Spain.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	sun 34	Caracas	thund 31	Faro	thund 27	Madrid	thund 33	Rangoon	thund 30
	Celsius	Belfast	cloudy 19	Cardiff	fair 19	Frankfurt	shower 28	Majorca	fair 32	Reykjavik	cloudy 14
Abu Dhabi	sun 40	Belgrade	cloudy 25	Casablanca	fair 23	Geneva	thund 25	Malta	sun 30	Rio	fair 25
Accra	thund 29	Berlin	sun 24	Chicago	fair 32	Gibraltar	thund 25	Manchester	fair 16	Rome	sun 31
Algiers	fair 36	Bermuda	shower 28	Cologne	thund 23	Glasgow	cloudy 16	Manila	thund 34	S. Frsco	sun 22
Amsterdam	fair 20	Bogota	thund 16	Dakar	sun 30	Hamburg	thund 25	Melbourne	fair 14	Seoul	fair 31
Athens	sun 31	Bombay	thund 32	Dallas	fair 38	Helsinki	sun 22	Mexico City	shower 30	Singapore	shower 32
Atlanta	thund 33	Brussels	shower 21	Delhi	fair 35	Hong Kong	thund 32	Miami	thund 32	Stockholm	cloudy 24
B. Aires	fair 16	Budapest	sun 24	Dubai	sun 39	Honolulu	sun 32	Milan	thund 25	Strasbourg	thund 25
B.ham	cloudy 19	C.hagen	cloudy 21	Dublin	cloudy 19	Istanbul	fair 26	Montreal	thund 32	Sydney	shower 17
Bangkok	thund 35	Cairo	sun 35	Dubrovnik	sun 28	Jakarta	fair 32	Moscow	cloudy 16	Tangier	shower 25
Barcelona	fair 27	Cape Town	sun 21	Edinburgh	shower 17	Jersey	fair 17	Munich	shower 25	Tel Aviv	sun 32
						Karachi	sun 37	Nairobi	fair 24	Tokyo	shower 27
						Kuwait	sun 47	Naples	sun 30	Toronto	thund 31
						L. Angeles	fair 24	Nassau	thund 32	Vancouver	fair 21
						Las Palmas	fair 27	New York	sun 35	Venice	fair 29
						Lima	cloudy 25	Nice	fair 28	Vienna	cloudy 25
						Lisbon	sun 30	Nicosia	sun 33	Warsaw	cloudy 20
						London	fair 21	Oslo	cloudy 23	Washington	sun 36
						Lux.bourg	shower 22	Paris	sun 23	Wellington	shower 9
						Lyon	thund 26	Perth	shower 16	Winnipeg	fair 28
						Madeira	fair 22	Prague	fair 25	Zurich	thund 23

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FINANCIAL TIMES
COMPANIES & MARKETS
Monday July 14 1997 Week 29

IN BRIEF

Profits surprise for Munich Re

Munich Reinsurance, the world's biggest reinsurance company, has announced stronger-than-expected profits of DM700m ($396m) in the last financial year. The group's shares rose about 15 per cent last week after the merger of Hamburg-Mannheimer and Victoria Insurance, two companies in which it had significant stakes. The merger created Ergo – a group with annual sales of about DM21bn and about 8 per cent of Germany's insurance market. Page 19

Top price for Rome airport shares
A 41 per cent stake in Aeroporti di Roma (ADR), *the company controlling the capital's two civilian airports*, has been priced at L11,000 per share, the top end of the indicated range, following heavy demand. This values ADR at L1,320bn, compared with L640bn in 1995 when Alitalia, the troubled national airline, was obliged to sell its 56 per cent share in the business. Page 19

Komatsu on European sales drive
Komatsu of Japan, the world's largest construction machinery group after Caterpillar of the US, is planning a sales drive in Europe to close the gap on its main rival. The Japanese company is seeking a 50 per cent rise in sales of construction equipment in Europe by 2000. Page 19

Report opens way for mergers
A government-sponsored taskforce on the reform of Canada's financial services industry has set the stage for mergers and takeovers among the biggest financial institutions. The group said in an interim report that "a 'big shall not buy big' policy should not have general application". Page 19

Fourth-quarter advance for Microsoft
Microsoft is expected to report an 80 per cent year-on-year rise to 78 cents in earnings per share for the fourth quarter to June. Analysts said the rise reflected strong growth in its enterprise systems division and revenue derived from recent upgrades by personal computer owners to the company's applications software. Page 20

Gas privatisations begin in Brazil
Two gas companies owned by the state of Rio de Janeiro are to be sold at an auction today for a combined minimum price of R$564m (US$522m) in what will be the first privatisation in Brazil of any state-owned gas company. A total of 51 companies have expressed an interest in bidding for Companhia Estadual de Gás, a gas company, and Riogás, a distribution company. Page 19

UK fund managers switch to gilts
UK fund managers are switching from equities to gilts, according to the first Merrill Lynch-Gallup monthly survey of institutional investment behaviour since the UK Budget. Higher base rates, the strong pound and the abolition of dividend tax credits for pension funds are behind the change, Merrill believes. Page 18

German health group in buy-out
Two of Europe's leading venture capital groups – Quadrigo Capital Management and SBC Equity Partners, a division of SBC Warburg – have bought a majority stake of about DM300m ($170m) in NWG, the German hospital services provider, in one of the biggest management buy-outs in Germany this year. NWG has an annual turnover of DM600m. Page 19

Ellis & Everard in US purchase
Ellis & Everard, the UK's largest chemical distribution group, is expected to announce further expansion in the US with the acquisition of e specialist paints and coatings business based in St Louis, Missouri. Page 18

Companies in this issue

Deutsche Telekom in internet plan

German telecoms group aims to offer overseas calls via superhighway

By Ralph Atkins in Bonn

Deutsche Telekom is drawing up plans to become the first large international telecommunications group to offer cut-price overseas telephone calls via the internet.

The Bonn-based group is expected to announce plans shortly for a pilot project that would allow about 1,000 selected customers to use the internet for calls that would cost as little as a fifth of the normal charge. If successful, the pilot could be extended to more customers.

Use of the internet as a rival to conventional telephone service is forecast to have a profound impact on the world's largest international telephone groups – increasing the downward pressure on charges and eroding revenues. The Deutsche Telekom service, for instance, is expected to cut the cost of call from Germany to the US from up to DM1.44 (82 cents) a minute to 24 pfg.

Deutsche Telekom refused to discuss its plans, saying details had still to be clarified. But Mr Ron Sommer, Deutsche Telekom chairman, has attached a high priority to investing in internet telephony. "There are huge opportunities for growth, particularly for the large telecommunications companies, because only they – unlike small and medium-sized companies – are able to finance the necessary worldwide investment," he said recently.

Mr Sommer added: "If internet telephony ever generates real business, then Deutsche Telekom, as Europe's largest internet provider, will profit to an especially large degree from that business".

Deutsche Telekom's move follows plans revealed last week by WorldCom International of the US to halve the fax bills of multinational corporations by offering s fax service via the internet. So far, internet telephony services have been offered only by relatively small, niche telecommunications companies.

Internet telephony takes advantage of the fact that telecoms operators sell transmission capacity in bulk at low prices – typically the cost of a local call – to internet service providers for high-speed data transmission. The Deutsche Telekom service is expected to be available from s normsl telephone, as opposed to using a computer, by dialling a special access number.

Poor voice quality has curbed the development of internet telephony. But Deutsche Telekom is understood to be confident it can offer a service – dubbed "T-Netcall" – which provides speech quality as good as that via a conventional telephone.

Talk will be cheap, Page 13

Expansion in Europe swells Price Waterhouse partners

By Jim Kelly in London

Price Waterhouse, one of the UK's Big Six accountancy firms, will today announce figures showing a rapid expansion in Europe with a 6 per cent increase in the total number of pertners to nearly 1,000.

The firm said that growth in some areas was "staggering" – pointing to a 256 per cent increase in partners in audit and business services and 186 per cent increase in tax and legal services.

The figures will be released from Rome today after a meeting to bring together PW's senior managers and 350 new partners admitted to its firms around the world – including 93 admitted to the European organisation.

Partner numbers are fundamental to the finances of the big firms as each one is to some extent both a shareholder and owner, and profit-per-partner is the main performance indicator in the sector.

"A key development since 1992 has been the steady and accelerating growth in the number of partners being admitted directly from outside the firm," said Mr Jermyn Brooks, chairman of PW Europe.

The admissions in Europe amounted to the equivalent of 72 full equity partners. Numbers were not given of the numbers of partners leaving the firm, but the overall net increase of 6 per cent points to significant real growth.

The big partnerships are private businesses and not required to release detailed financial information. But in an increasingly competitive environment disclosure is becoming more common. Two of the Big Six in the UK recently began to release full annual financial results.

Some of the big firms appear to be expanding quickly both to meet demand linked to increased economic activity and to secure market share in rapidly developing areas. Ernst & Young, another Big Six firm, recently announced a 3.6 per cent increase in UK partner numbers to 430.

PW wants its expansion to be seen in global terms as it pitches to secure a share of the multinational cross-border market for business services.

European derivatives markets step up fight for customers before Emu

Exchanges walk the thin line that separates rivalry and war

War. That stark word was used to describe the latest bout of competition between European derivatives exchanges last week by one of the protagonists – Mr Daniel Hodson, chief executive of the London International Financial Futures and Options Exchange.

Liffe's rival, DTB, Deutsche Börse's derivatives arm, had announced plans to launch a *barrage of products which it* hopes will tempt business sway from London.

Mr Hodson's light-hearted quip went down badly with his counterparts at DTB and Matif, the French futures and options exchange.

All three exchanges have been intensifying efforts to increase their market share before the planned start of European economic and monetary union in 1999. Emu is expected to shrink the total size of the listed derivatives market as convergence between European economies and financial markets reduces the need for hedging instruments.

Officials at DTB said their initiative was intended in a friendly spirit. "We would not describe the situation as war," said Mr Jörg Franke, a member of DTB's executive council. "This is competition, not war. Our goal is to make life easier for market participants."

Regardless of the semantics, DTB's decision was perceived as an aggressive attempt to undermine London's dominance. Liffe's stranglehold on 10-year German government bond futures and three-month euromark interest rate futures is not as secure as it once was. *DTB claims it now has* a 39 per cent share of the market for long bund futures and on some days captures as much as 45 per cent.

The Frankfurt-based exchange, which this year overtook Matif to become Europe's second largest market, is also confident it will dominate trading in its planned 30-year bund future, despite the failure of its first attempt in the early 1990s. The exchange also announced plans to introduce options and futures on a European stock index which it will devise with the help of SBF-Paris Bourse and the Swiss stock exchange. That, DTB hopes, will confirm its dominance in the equity futures market.

Last week Matif also disclosed a co-operation agreement with Monep, the French options exchange, to manage *the CAC 40 index of the Paris* Bourse, as well as any new derivatives on this index or other indices to be created.

DTB's plans include a tie-up with Simex, the Singapore derivatives exchange, which will enable traders in Singapore to deal in DTB's products after the DTB trading floor has closed. DTB says these joint ventures will enhance Frankfurt's cost advantage over Liffe.

Liffe's strong reaction is partly explained by the timing of DTB's announcement, after a period during which exchanges seemed to be increasingly treading on each other's toes. Liffe and Matif both recently created futures contracts on five-year German bonds – Bobl – a part of the German yield curve previously dominated by DTB.

Counter-measures were also apparent in other strategic decisions. This year, for example, Liffe and Matif simultaneously announced link-ups with the Chicago Board of Trade and the Chicago Mercantile Exchange, the largest derivatives markets in the US.

When Liffe took steps in the spring of 1996 to ensure its contracts were compatible with the single European currency, it was followed within weeks by other exchanges.

There is no doubt tension is rising between excbanges. Analysts believe the latest outbursts indicate increasing anxiety among exchange officials.

"Excbange executives are running out of new ideas," says a former official et one of the derivatives markets. "They are finding it more difficult to come up with innovations that cannot be matched rapidly."

Another informed observer says: "It looks more and more likely thet the determining factor in this contest will not be product-linked. Technology is becoming a key variable."

DTB's electronic trading system is widely considered much cheaper than Liffe's open outcry trading floor. But Liffe insists pit trading provides a degree of liquidity and transparency that screen-based trading lacks.

"This argument will go on and on; but until DTB wins control over more contracts, the liquidity will stay in London," says a senior futures broker in London.

Edward Luce and Samer Iskandar

China groups reveal HK deals

By John Ridding in Hong Kong

Two deals by China-controlled conglomerates have renewed activity in the so-called "red chip" sector of the Hong Kong stock market, in epite of restrictions imposed by Beijing last month.

China Merchants, e business arm of Beijing's ministry of communications, said at the weekend it was paying Yn3.1bn ($374m) for a majority stake in an expressway in eastern China.

Also, Cosco Pacific, the Hong Kong subsidiary of China's biggest shipping group, disclosed plans to raise its stake in Hong Kong's Liu Chong Hing Bank from 5 per cent to 20 per cent.

The Cosco deal underlines the expansion of red chips, Hong Kong-listed affiliates of Chinese companies, into the financial services sector. Last month, China Resources Enterprises, one of the biggest red chips, acquired a stake in HKCB Bank.

Mr Ryan Ko, banking analyst at G.K. Goh Securities, said: "Hong Kong banks and finance companies provide a relatively stable and predictable earnings stream."

ING Barings said: "In the bigger picture, this transaction has more implications for the red chip asset injection story than for the company itself. It demonstrates the ability of strong red chips to acquire assets offshore and their flexibility to raise funds from the market to support such moves."

Last month, before Hong Kong's return to China and amid a surge in speculation in red chip shares, Beijing's financial authorities announced tougher procedures for the injection of assets from mainland companies into Hong Kong-listed subsidiaries.

That contributed to a fall in red chip share prices after the handover, altbougb they rebounded strongly last Friday.

According to ING Barings, the actions of Cosco and China Resources suggest that red chips with financial strength can circumvent the rules by seeking offshore acquisition targets. "This should mark the beginning of a series of Hong Kong asset injections into the red chips," said the bank.

The terms of Cosco's deal were not disclosed. But analysts estimated that the planned purchase of 89m shares in Liu Chong Hing Bank would cost abont HK$2bn ($260m).

Eurobonds targeted in coffee row

By Geoff Dyer in São Paulo

Lawyers representing three coffee trading companies are considering an attempt to seize the proceeds of the sterling Eurobond issue which the Brazilian government plans to launch this week as repayment for a long-standing debt. The threat is the latest twist in a dispute over a coffee shipment to Brazil in 1986, for which the companies claim they are still owed more than $169m by the Brazilian government.

The Brazilian government said the dispute would not affect its expected launch of a £150m-£200m Eurobond this week or any other planned bond issues. The central bank said its lawyers had advised "there is no possibility whatsoever of a seizure of funds".

The three main companies involved in the case are ED&F Man, a commodities trading and financial services group, Intercontinental de Café, based in Switzerland, and Citoma Trading, which was an associate company of Berisford, the conglomerate and former commodities trader.

The claim stems from the so-called "Patricia Operation" on the London coffee market in 1986 when the state-owned Brazilian Coffee Institute (IBC) instructed the companies to buy coffee on its behalf in an attempt to boost internstional prices. However, when prices fell the next year *the IBC* delayed payment for the coffee, which ended np being stored in an Italian warehouse.

The companies won a 1990 judgment in a UK court for repayment. Shortly afterwards the IBC was abolished by the Brazilian government. The companies claim that the obligation then passed to the federal government.

Lawyers for the Brazilian government argue it is not clear if the federal government is obliged to recognise the debts from the "Patricia Operation" because the IBC had not followed official authorisation procedures.

Last month the companies won a case in Milan allowing them to seize the proceeds of Brazil's L500bn bond issue on June 3, Mr Langley said. An *order had been served on the* Milan office of Deutsche Morgan Grenfell, the bank which lead-managed the bond issue. It is not yet clear if any money has been recovered.

Retailer and pools group to change format and concentrate its activities on smaller outlets

Littlewoods close to deal on stores' sale

By Richard Adams

Littlewoods' attempts to revive its retailing business could shortly see the sale of up to 30 of its largest stores.

The privately-owned retail and pools group is close to reaching a deal with another retailer which would see the sale of a portion of its 135 high-street stores, the company said yesterday.

Reports at the weekend said 19 of the largest stores could be sold as a package for up to £120m. A number of national retailers, including Boots, Tesco and Marks and Spencer, have indicated interest in purchasing parts of the Littlewoods portfolio.

The company said it had highlighted 20 to 30 of its larger stores for possible sale. It confirmed that it was in oegotiations with a possible buyer.

Littlewooda has now decided to restructure the retail chain with a view to possibly floating the business in between two and three years. It plans to change the format of its remaining stores, concentrating on smaller retail outlets aimed at women customers aged over 45.

The company said it wanted to run a limited trial, involving 10 or fewer stores trading under its current own-label brand name Berkertex. If successful, the name could be extended to the rest of the remaining chain of stores.

The moves come two weeks after the collapse of talks between the group, owned by the reclusive Moores family, and the high-street retailer, Kingfisher.

Littlewoods abandoned plans to sell its portfolio of 135 stores after disagreements over price. Littlewoods was thought to have asked for £500m for the entire chain.

Kingfisher was understood to have wanted many of the sites for its Woolworths and Superdrug chains.

It would have sought to dispose of the remaining locations to other retailers such as Tesco, which were believed to be interested in at least 20 for its high-street Metro supermarket format.

Fund managers switching to gilts

By Christopher Brown-Humes

UK fund managers are switching from equities to gilts, according to the first Merrill Lynch/Gallop monthly survey of institutional investment behaviour since the Budget.

Higher base rates, the strong pound, and the Budget abolition of dividend tax credits for pension funds are behind the change, Merrill believes.

Buyers of UK gilts outnumber sellers by 29 percentage points - the largest number of net buyers since December 1994 wheo gilt yields were about 8.5 per cent, against today's 7 per cent. Sellers outnumber buyers of UK equities by 18 percentage points, the highest such figure for a year.

Mr Bijal Shah, global strategist at Merrill Lynch, said: "The UK equity market is conteoding with the prospect of higher base rates. In contrast, interest rates are not rising on the continent. As a result, we believe UK equities will perform poorly when compared to other European bourses."

The survey, conducted between July 7 and July 9, questioned 56 UK institutions, managing £775bn of funds.

Last week's quarter-point rise in base rates to 6.75 per cent means fund managers' average forecast for base rates over the coming year has risen to 7.5 per cent. In June the average forecast was 7.1 per cent.

Meanwhile, the strong pound and expectations of less strong economic growth have lowered earnings estimates for 1997 and 1998. Earnings per share are forecast to grow 7.7 per cent in 1997, down from the 8.5 per cent forecast in June.

The aholition of the advance corporation tax credit has reduced the potential dividend stream from UK equities - another reason for gilts being favoured, Merrill believes.

Respondents were most pessimistic about engineering stocks, and most bullish about retail banks, pharmaceutical companies and food retailers.

Mr Shah said: "Consumer spending should remain strong given the windfall gains from the restructuring of the UK building societies and mutual insurance companies.

"In our view, consumer spending can only be curtailed by a significant rise in base rates, perhaps to 8 per cent."

A mobile way to beat the traffic queues

By David Blackwell

Trafficmaster is close to a deal to make its traffic information available over a leading mobile telephone network.

The network – understood to be Cellnet – might decide to give the small receivers free with each mobile telephone sold.

The receiver, which is the size of a car tax disc and would be placed above the dashboard, would hleep to alert drivers of traffic problems within a 12-mile radius.

Drivers could then press a single number on the mobile telephone to hear the details. At current rates of take-up in the mobile telephone market, as many as 400,000 receivers could be given away every year.

Trafficmaster is understood to want the system operational in time to take advantage of the Christmas market.

The deal – heralded in Trafficmaster's 1996 annual report – would mark a further move into a mass market for the traffic information supplier. The group already has an agreement with Vauxhall, which fits its Oracle device in some models as original equipment.

In April, Trafficmaster, which was floated in 1994, announced larger than expected losses of £3.41m for 1996 on sales 35 per cent ahead at £3.45m. But the gronp maintained that it would make its first profit this year.

The group relays live traffic information via sensors across the UK motorway system. By Easter next year the sensors will have been extended to cover the national trunk road network.

Energy group to raise £15m for renewable power

By Jane Martinson

A renewable energy group is to start a £15m fund-raising exercise this week which is set to place almost half the group in the hands of institutional investors.

Energy Power Resources is unusual in the UK energy field in that it is dedicated to investing in power stations fuelled by renewable resources such as poultry litter, straw and wood.

The placing aims to capitalise on renewed interest after recent government statements about the environmeot.

Mr William Law, co-founder and non-executive chairman of EPR, said that electricity generation from renewable resources "will become a major growth sector of the electricity generation industry as the government continues to seek to fulfil the environmeotal targets established at the Rio de Janeiro summit and recently raised at Denver".

The loss-making company was founded three years ago by Mr Law and Mr William King, who remain as non-executive directors, and large shareholders. If £15m is raised 49 per cent of the group will be held by institutions.

The group is not expected to be profitable until 2000 after making pre-tax losses totalling some £400,000 in the next two years.

It aims to seek a stock market listing in 2002 when sales are expected to reach some £80m.

The money raised from the placing will be used to fund future projects. A £21m poultry litter project at Westfield in Fife, Scotland, is expected to be completed hy the end of this year.

EPR is involved in 26 projects in total, including one in Cambridgeshire which aims to generate power from straw.

Mr Peter May, a corporate financier at Cbarterhouse Tilney which is sponsoring the placing, said that the information memorandum would be sent to a wide range of institutional investors today.

Charterhouse will take an option on 2.5 per cent of the company as part of its fees.

Impact day is expected to be August 13.

WH Smith aims to capture loyalty

By David Blackwell

WH Smith – still searching for a chief executive after the surprise resignation of Mr Bill Cockburn last month – will launch a loyalty card on Wednesday as part of its drive to revive the embattled retail group.

The move follows extensive trials in north-east England and the midlands. The group said yesterday that the card, which offers a 2 per cent discount, had significantly increased sales and it was confident the success of the trials would be repeated nationally.

The card will be credited with a point for every 10p once the £1 trigger-level is breached.

Mr Cockburn's resignation after less than 18 months, however, has cast doubt on the progress of plans to revitalise the group. His departure less than halfway through the four-year recovery programme, coupled with news of delays in restructuring, has not helped the share price, which has fallen from a high of more than 500p last year to 341¼p on Friday.

Playing a strong card: Beverley Hodson, managing director of WH Smith retail, in one of the company's stores

This has led to renewed speculation on the groop's vulnerability to a takeover. The list of potential predators inclndes Kingfisher, while Boots and Asda both cast their eyes over tbe group last year and could look again.

Meanwhile, the search for a new chief executive continues. Mr Stuart Rose, who resigned from Burton last week, is certain to be on the short list. Internal candidates include four executive directors – Mr Keith Hamill, finance director; Mr Richard Handover, managing director of news distribution; Mr John Hancock, chief executive of the US division; and Mr Alan Giles, managing director of Waterstooe's.

Merrill makes up for lost time on forex

Simon Kuper charts the rise of the US investment bank among the world's currency dealers

The growth happened so fast that the Bank of England blinked. A few weeks ago, it asked whether Merrill Lynch's foreign exchange turnover was really as high as the US bank had reported. Indeed, Merrill replied, the figure was correct.

Merrill, never before a large player in the foreign exchange market, has rapidly made up the lost years. Its leap in tbe Euromoney forex rankings from 24th last year to third this year overstated the growth, most in the hank admit. One Merrill executive says that when be heard the news he thought someone was having him on.

But Mr John Key, Merrill's managing director of global forex, says the bank'e currencies turnover bae quadrupled since the first half of 1996. He reckons it has reached the "lower end of the top 10" of forex banks in turnover terms, up from the low twenties two years ago. Ms Rosalyn Wilton, managing director of transaction products at Reuters, a leading electronic broker in currencies, confirms: "Merrill's name is talked about a lot in tbe market."

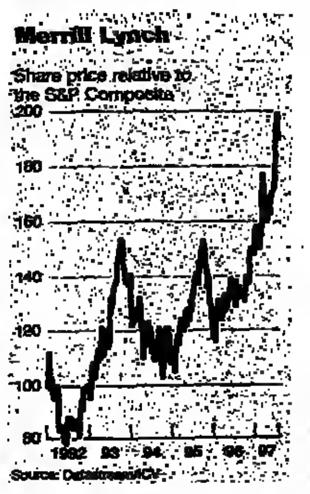
Merrill's rise was waiting to happen. The bank is ooe of tbe world's largast equities and fixed-income houses, and has 10 to 12 per cent of tbe US Treasury hond market. Its clients include many large investment fnnds and companies, particularly in the US.

The bank had previously stayed out of currencies, a field which used to be dominated by main-street commercial banks inclnding Citibank, Chase and HSBC Midland, which bad vast piles of capital and bundreds of traders. They made most of their profits by execoting deals for clients and charging a much bigger margin than they could get these days. With a daily turnover in the forex market of $1,200bn, trading required a very thick wallet. There was little technology, so only the most active banks could discover the best price in the market.

But in the past four years the market has changed. Electronic broking eystems have brought the best price to a far larger number of banks, cutting margins on trades. Fewer traders are now needed to deal a larger volume than before. The commerciel banks have spent much of the 1990s closing down trading desks, particularly in Europe.

Meanwhile, other trends have been at work. Global trade and investment have grown, lifting demand among companies and pension funds for foreign exchange. So the big profits in forex are no longer to be made from executing trades, but from providing a range of services to clients.

This suited Merrill and the other investment banks. Whereas commercial banks typically have tens of thousands of clients, from multinationals to families, investment banks have e small number of select customers. Many of these are willing to buy complex services. A pension fund that buys Swedish bonds through Merrill, for instance, may also seek risk management and currency advice.



If Merrill wanted to help its clients buy foreign assets, it had to steer them through foraign exchange, too. Mr Key says: "Our customers want everything, and that doesn't mean bonds and equities and a very shoddy forex operation." The result is that Merrill's customer business has risen 30 per cent in the first half of this year compared with tha same period last year, says Mr Key.

Tbe same forces have raised the ehares of the currencies market held by Merrill's fellow US investment banks, Goldman Sachs and Morgan Stanley. Mr Robert McKnew, Bank of America's head of forex, admits: "The investment banks are among our very best competitors."

However, Merrill is doing more than simply servicing clients. The bank has also taken the plunge into the interbank market, trading billions of dollars daily with the likes of Citi and Chase.

Merrill accepts that margins on these trades are slim. Its forex profits have merely doubled since the first half of last year – half the speed of the rise in turnover. "In the last 18 months, we probably easily doubled the numbers of staff in our trading operation," says Mr Key.

But the bank believes it simply had to enter the interbank market. If Merrill ware to ask commercial banks to execute most of its trades, its clients might cut out the middleman and go straight to the dealing banks. Moreover, thanks to its active trading, Merrill claims to be able to give clients a snapshot of the whole market – what the hedge funds are doing, the investment funds, and so on.

For the future, Mr Key sees one potential problem. Trade in emerging markets' currencies is growing fast, and he fears that the commercial banks may have an edge in some countries. Citibank and Deutsche Bank already have larga operations in India and Vietnam, for instance. They have banking licences, and thus may find it easier to get trading permission in some countries than will Merrill with its securities licence.

On the other hand, Merrill may be stronger than its rivals in foreign bonds. One big question for the next few years is whether customers wanting to trade ringgits or rupees will make their first telephone call to their investment bank or their commercial bank.

NEWS DIGEST

Ellis & Everard in US purchase

Ellis & Everard, the UK's largest chemical distribution group, is expected to announce today further expansion in the US with the acquisition of a specialist paints and coatings business based in St Louis, Missouri. The business, expected to be worth in the region of £10m, is the latest in a string of acquisitions by Ellis & Everard as it expands its geographical coverage and product range. It will be funded from the company's own resources and will substantially extend its coverage of the mid-West.

Today'a announcement will coincide with the company's preliminary results. The chemicals industry has been under pressure from falling prices and adverse currency movements forcing Ellis & Everard to grow through acquisitions. Last year, the company made eight acquisitions, including the £7.4m purchase of Chemitrade, helping to lift sales by 10 per cent to £321.8m for the half-year to October. Part of the strategy has been to diversify into more profitable speciality chemicals and the St Louis acquisition should help towards that aim. *Roger Taylor*

Formal Group restructures

Formal Group is to sell its majority stake in Blakes Clothing, which will seek a separate listing on Aim, in a financial restructuring package.

The clothing group, which also announced that pre-tax losses for the year to March had widened from £2.3m to £8.7m after exceptionals, said its performance over the past year had been "disastrous". Exceptional charges of £7.3m related to putting Pronuptia, its bridal-wear subsidiary, into administration last October. Group sales were £14.2m (£8.2m).

The company is raising £4.35m by selling 6m shares in Blakes Clothing, which is to come to Aim through a placing and offer at 72.5p a share, giving a market capitalisation of £7.24m. Formal is also selling its Langside, Formal Hire and Brenton businesses for £1 each to Formal Wear.

Formal Group will be left with 2m Blake shares or a 20 per cent holding, a stake in Formal Wear and the bridal-wear business of Cupid Manufacturing, which it intends to expand in the UK and overseas. Proceeds from the sale would be used to repay debt and provide Cupid with working capital.

Formal Group was confident that "in the absence of unforeseen circumstances" it would be able to continue. Current bank facilities are due for renegotiation on July 31.

A change of name to Storedale has been proposed, and Mr Charles Brine, chief executive, is to resign on completion of the disposals. *Liz Vaughan-Adams*

Halfords own-brand move

Halfords, the Boots-owned car parts, accessories and servicing group, is poised to launch its own-brand replacement parts to try to capture a larger share of the £470m-a-year market serving private motorists.

The group, which has the largest chain of parts and accessories "superstores" in the UK, has signed contracts with dozens of component makers to supply a range of 1,300 parts – more will be added.

The full launch of the Halfords brand follows several months of selling a limited range in the group's 277 superstores and 134 high-street outlets.

The move comes as Halfords is preparing to complete this year's programme of opening another 28 superstores. The venture aims to take market share from the thousands of independent car parts shops, and motor factors which traditionally have handled most of the private motorist trade. Its main rivals are Unipart and Charlie Browns, a much smaller parts and accessories superstore chain.

Mr Gil Duffy, Halfords' business development director, said Halfords' range of parts would cover about 90 per cent of the car population, providing such regular service parts as brake discs and pads, water pumps and timing belts, oil filters *John Griffiths*

No test for Grampian bid

The Independent Television Commission has decided against a public interest test on the proposed merger between Grampian Television and the Scottish Media Group. The ITC previously conducted a public interest test into the acquisition by Scottish Television of Caledonian Publishing. However, the Commission ruled last October that the takeover did not operate against the public interest, following submissions from a wide range of parties in Scotland. The ITC also consulted the Office of Fair Trading.

■ AVOCET MINING has completed the acquisition of a 60 per cent stake in Damar Consolidated Exploration with the issue of a further 825,000 shares. The total consideration of £2.32m has involved the issue of 1.1m shares.

■ BRISTOL & WEST BUILDING SOCIETY has beeo transferred to a subsidiary of the Bank of Ireland, to be named Bristol and West plc, following approval from the UK Buildings Societies Commission.

■ C&B PUBLISHING has bought the Promotional Reprint Company for a preformance-related maximum of £513,591 plus 255,455 new C&B shares.

■ DARES ESTATES: Mr Ervin Landau, chairman of the property investment and allied services group, announced his resignation with effect immediately after the annual meeting on July 30. Mr Landau also disposed of his beneficial holding of 1.37m shares. Mr Joram Szerkowski has been appointed as managing director.

■ FIVE OAKS INVESTMENTS has acquired a fully let reversionary 62,000 sq ft retail warehouse park in Gloucester for £12m cash. Purchased from Boots Properties, the Eastern Avenue Retail Park, with parking for 300 cars, currently produces net rental income of £615,000 a year from five tenants, including Currys, Allied Carpets and Harveys.

■ JERMYN INVESTMENT PROPERTIES has sold two properties,acquired as part of the Babcock Pension Trust portfolio in September 1996, for a total of £2.71m representing in excess of 28 per cent over the acquisition price.

■ KENMARE RESOURCES has signed a second joint venture agreement for gold exploration and development in Yugoslavia. Kenmare's partner is Geoinstitut, which will contribute title to two projects situated on a large copper and gold-bearing belt in the Balkans.

■ SIEBE'S control aystems division has entered into global partnership agreements as the preferred supplier of plant automation solutions to both Shell International and Owens Corning.

■ TULLOW OIL, the international oil and gas producer and explorer, has sold its production and exploration interests in the Czech Republic to Medusa Oil & Gas for £2.1m cash. The injection of the Czech assets into Medusa Petroleum, which was planning to float on Aim, and in which Tullow would have held a 25 per cent stake, will not now go ahead.

■ VICKERS, the engineering group, has sold part of its S&W Medico Teknik medical division to Artema Medical of Sweden for £6.5m, including share capital and debt. Artema develops, manufactures and markets equipment for the anaesthesia and intensive care markets while S&W makes monitors and defibrillators for intensive care and recovery units.

■ WHATMAN, the separations technology specialist, has bought Aquilo Gas Separation from TBI Holdings of the Netherlands for Fl 13.8 (£4.15m). Aquilo has developed a proprietary hollow fibre membrane technology used for the production of nitrogen by air separation. The company, which is in a developmental stage, mada losses of Fl 1.8m in 1996; its net assets were Fl 4.7m.

COMPANIES AND FINANCE: INTERNATIONAL

Rio de Janeiro state to auction two companies for a minimum combined price of of R$564m

Gas privatisations begin in Brazil

By Geoff Dyer in São Paulo

Two gas companies owned by the state of Rio de Janeiro are to be sold at an auction today for a combined minimum price of R$564m (US$522m) in what will be the first privatisation in Brazil of any state-owned gas company.

A total of 51 companies have expressed an interest in bidding for Companhia Estadual de Gás, a gas company, and Riogás, a distribution company. However, it is not clear how many will take part in the sealed envelope auction at the Rio de Janeiro stock exchange

If the sale goes ahead, it will underline the gathering momentum of the privatisation programme in Brazil and in particular in Rio de Janeiro state, which has already sold its bank, Banerj, and Cerj, the electricity distribution company.

A minimum price of R$423m has been set for CEG while Riogás will be sold for a minimum R$141m. Potential buyers will have to put in offers for both companies and the winner will be the highest combined bid.

In a further indication of the increasing pace of privatisations, the Minas Gerais state government announced last Friday that it planned to sell its bank, Credireal, in an auction on August 7 for a minimum R$130.8m.

Eight financial institutions have pre-qualified to bid for Credireal, including the Brazilian subsidiaries of Crédit Commercial de France, BankBoston and GE Capital Corporation. Tha bank's employees will be able to buy 10 per cent of the shares at a 50 per cent discount.

Credireal will become the second state-owned bank to be privatised after Banco Itaú, the second-largest private sector bank in Brazil, bought Banerj for R$311.1m in June.

After being slower than many of its neighbours in Latin America to embrace privatisation, the Brazilian federal and state governments have outlined an ambitiona programme of sell-offs, including energy, telecoms and railways.

Mr Ruy Coutinho, head of the economic law department of the Ministry of Justice, estimated last week the government would receive $90bn over the next three years from asset sales, well above the total receipts from privatisations in the rest of Latin America since the start of the decade.

Komatsu plans sales push in Europe

By Peter Marsh in London

Komatsu of Japan, the world's largest construction machinery group after Caterpillar of the US, is planning a sales drive in Europe to close the gap with its main rival.

The Japanese company is seeking a 50 per cent rise in sales of construction equipment in Europe by 2000.

Komatsu is basing this strategy on strengthening the competitiveness of its European plants, particularly its factory in Italy, with further infusions of Japanese manufacturing technology.

It plans a fivefold rise in the amount of components its European plants buy from low-cost suppliers in the former communist nations of eastern Europe. This, Komatsu says, should enable it to increase output sharply without adding too much to costs.

Since the mid-1980s, Komatsn has spent about DM300m ($170m) developing its European plants. "We want to harvest what we have sown," said Mr Kazuhiro Aoyagi, Komatsu European president.

The new plans will mean extra production for Komatsu's factory in Birtley, north-east England, which it started in the late 1980s and which employs 400. Production of excavators there is intended to rise from 2,000 this year to about 3,000 in 2000.

Its plant near Venice, which employs 680 and concentrates on small excavators and other lightweight machines, should see annual production rise from 4,500 to 7,500.

In Europe – where the market for construction machines is static at about 80,000 units a year, and worth an estimated $15bn at distributor prices – Komatsu believes it is the fourth-biggest supplier of construction equipment by volume. Ahead of it on volume are JCB of the UK, Caterpillar and Volvo of Sweden.

Virtually all Komatsu's sales in Europe come from its own European plants. In the early 1980s it imported most of the equipment from east Asia, sparking accusations of dumping from European manufacturers.

Komatsu buys in components worth about DM12m a year from low-cost suppliers in eastern Europe. This figure should rise to about DM60m a year by the end of the century, according to Mr Aoyagi.

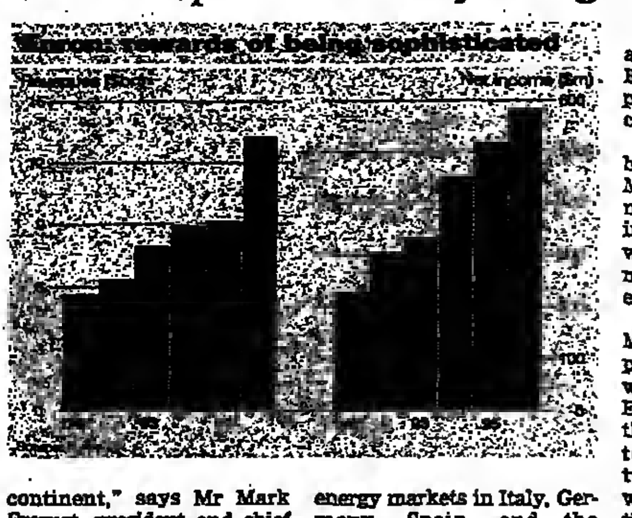
The company is also planning to cut by up to 10 per cent the costs of the machines made at its Italian plant by applying Japanese manufacturing know-how.

Enron blazes a trail in Europe

The US group aims to exploit electricity and gas deregulation in the EU

If you polled utility chiefs as to the competitor they most admire and fear, Enron is likely to be cited with greatest frequency.

Enron is a Houston-based utility that "re-invented" itself more than a decade ago. It changed from a company owning gas pipelines to one of tha world's higgest energy traders and a leader in exploiting the merging of the gas and electricity markets that has gathered pace in the 1990s.



In Europe, Enron has been blazing a trail it hopes will lead to a commanding position from which to exploit electricity and gas deregulation throughout the European Union.

It recently signed a memorandum of understanding with Enel, the Italian state-owned electricity company, jointly to operate 5,000MW of generation.

At the same time, it is working on an innovative financing package for a gas-fired power station in Poland and has just financed a gas-fired power station in the UK. When the UK power station starts running in 1999, it will take Enron's ownership of UK electricity generation to about 7 per cent.

"Our ultimate goal is the continent," says Mr Mark Frevert, president and chief executive of Enron Europe.

"As these markets liberalise, you will see a lot more price instability. The need will grow to manage price risks, and that's where the strengths of Enron in risk management will give us an edge on the continent."

Mr Frevert says Enron has spent up to $300m over the past five years on developing proprietary trading and computer systems which help the company, and its clients, to manage and define risks. He helieves that this will help Enron better penetrate energy markets in Italy, Germany, Spain, and the Netherlands.

He has a warning for European utilities: "Markets will deregulate quicker than peopla expect." That is the main lesson from the US, where deregulation is now happening at the retail level, he says.

Enron's financial statements do not disclose how much the company earns from its European operations, and Mr Frevert will say little about profits other than that Europa makes "a significant contribution to earnings".

The Enel deal represents an important step in Enron's European plans, as the company does not own significant assets on the continent.

"There is a good fit between Enron and Enel," Mr Frevert says. "Enel does not have a lot of experience in competitive markets, whila Enron has rtsk management and trading expertise."

The joint venture, which Mr Frevert says could be publicly listed in due course, will take on 5,000MW of Enel's generation. Most of this plant will be converted to comhined-cycle gas-turbine generation "whicb would make it very competitive in the Italian market".

Energy trading is an important arm of Enron's activities in Europe. The most open markets are in the UK and in northern Europe, wbere Nordpool sets prices for electricity in Scandinavia and Finland.

Electricity trading has increased sharply this year. Mr Frevert claims Enron traded as much electricity in the first six months of this year as it did in the whole of 1996. He says there is an advantage for companies such as Enron in being first into a new market.

"If you're in there and understand how markets move, you do have an advantage over companies that are resistant to change," be says. "When markets do open up we want to be the first in there."

Underpinning Enron's move into Europe is a sophisticated approach to financing power stations. In Poland, it is huilding a 125MW combined-cycle gas-fired power station. This is backed by a 20-year power purchase agreement, and Enron bopes to raise $100m of debt.

What is innovative in the Polish deal is the terms of the financing. Enron wants to raise 17-year finance which, if it succeeds, will be the first time a Polish entity has been able to tap international capital markets for loans longer than 12 years.

Similarly in the UK, with the financing of Sutton Bridge, a 790MW combined-cycle gas-fired power station in Lincolnshtre, Enron issued £195m and $150m of 25-year bonds – the first time a power station in the UK had heen funded with dual currency bonds.

Simon Holberton

German health group in MBO

By Graham Bowley in Frankfurt

Two of Europe's leading venture capital groups have bought a majority stake of about DM300m ($170m) in NWG, the German hospital services provider, in one of the biggest management huy-outs in Germany this year.

The deal will provide fresh momentum to Germany's fledgling management buy-out market.

Quadrigo Capital Management and SBC Equity Partners, a division of SBC Warburg, said they had bought a majority shareholding in NWG, which has an annual turnover of DM600m.

NWG, which is based in Duisburg, provides hospitals with cleaning and other services, including facility management. NWG's present managers were also investing in the buy-out, the two groups said.

Intense restructuring in German industry and the increasing willingness of small family-owned businesses to sell their companies has triggered significant growth in the German MBO market after years of stagnation.

A survey earlier this year showed that the country's MBO market was the biggest in continental Europe in 1996 for the first time, outpacing even the French market, traditionally the strongest in continental Europe.

The trend underscores the changing face of German industry, which has come under intense pressure to restructure because of international competition and depressed conditions in the domestic economy.

The survey – carried out by Initiative Europe, a private equity specialist, and the University of Nottingham in the UK – showed that MBOs increased to $1.8bn in Germany last year.

Specialists say the pace of growth has continued this year.

"We see a lot more transactions taking place in Germany," said Mr Yves Dudl, an adviser at SBC Warburg.

"Companies are reforming their core businesses, small businesses want to expand, and there is the growing notion of shareholder value.

"Buy-outs have been accepted as a practice now and are no longer shunned as asset stripping."

Mr Dudl said thet small German companies had in the past resisted selling their businesses, because this was often interpreted as meaning that the company was in difficulties.

However, this was changing. "Germany has been a very strong market recently," he said.

Strong year at Munich Re

By Graham Bowley

Munich Reinsurance, the world's biggest reinsurance company, unveiled stronger-than-expected profits of DM700m ($396m) for the last financial year, adding fresh momentum to the recent sharp rise of its share price.

The group's shares rose about 15 per cent last week amid growing enthusiasm about the prospect of further consolidation in Europe's financial services sector.

The rise was triggered hy Munich Re's move to strengthen its position in the European insurance market by merging two companies in which it had significant stakes.

The merger of Hamburg-Mannheimer and Victoria Insurance created Ergo – a group with annual sales of about DM21hn and about 8 per cent of Germany's insurance market.

Analysts said the move has encouraged investors, who helieve Munich Re could make large cost savings from the merger and that it might make another purchase soon to lift its market share.

Munich Re said profits in the year to the end of June rose about 15 per cent to DM700m. Earnings per share climbed to DM150.

Preminm income increased by about DM3bn, or about 10 per cent, to DM32bn.

Mr Bob Yates, insurance analyst at Fox-Pitt Kelton, said: "These are extremely impressive figures."

Analysts said that the company had been helped by the lack of big disaster claims.

The shares closed at DM6,135 on Friday, up DM185.

However, Mr Yates warned that the shares now appeared overvalued. "Little note is being taken of the horrendous competition in the insurance sector which could eventually depress earnings. There is a risk of a sharp correction," he said.

The company raised its dividend DM1 to DM17. As expected, it announced a stock split to improve tbe liquidity of its shares.

Stage set for mergers in Canadian finance sector

By Bernard Simon in Toronto

A government-sponsored task force on the reform of Canada's financial services industry has set tha stage for mergers and takeovers among the biggest financial institutions.

Tha group said in an interim report that "a 'big shall not buy big' policy sbould not have general application", partly because "the sector as a whole contains no dominant player and is exposed to the forces of competition."

Tha recommendations do not apply to mergers or takeovers between the "Big Six" domestic banks, the most powerful providers in the financial services sector. The question of bank consolidation will be addressed in the task force's final report, due in the second half of 1998.

However, the report said international competitiveness should be "an important criterion" in weighing the benefits of mergers and takeovers. Several bank chiefs have said they favour consolidation among Canadian banks to keep pace with developments in the US and overseas.

The government asked for the interim report following proposed deals unveiled by two banks in recent weeks. Royal Bank of Canada, the country's biggest financial institution, has made a C$2.4bn (US$1.75bn) bid for London Life, the leading individual life policy underwriter. Bank of Nova Scotia has offered C$1.3bn for National Trust, an Ontario-based institution specialising in mortgage lending and fiduciary services.

According to the report, the six domestic banks together make up 62 per cent of deposits, 50 per cent of residential mortgages and 65 per cent of consumer loans. But the largest has a market share in those areas of only 17 per cent, 13 per cent and 16 per cent, respectively.

The task force was at the centre of a political storm last week after the government asked its chairman, Mr James Baillie, to resign on grounds of conflict of interest. Mr Baillie, a Toronto lawyer, was involved in talks leading up to Scotiabank's hid for National Trust. Mr Baillie's backers contend that his contract allowed him to continue legal practice while heading the inquiry.

INTERNATIONAL NEWS DIGEST

Strong demand for Aeroporti di Roma

Shares in a 41 per cent stake in Aeroporti di Roma, the company controlling the Italian capital's two civilian airports, have been priced at L11,000 each, at the top end of the indicated range, following heavy demand. This values the group at L1,320bn ($769m), compared with L840bn in 1995 when Alitalia, the troubled national airline, was obliged to sell its 56 per cent share in the business to Cofiri, a finance arm of Iri, the state holding company. The latest offer was 14 times oversubscribed.

If institutional investors exercise a greenshoe – or over-allotment – option, 45 per cent of Aeroporti di Roma's shares will be sold. The government last week announced it would eventually sell the state's entire holding of 75 per cent.

The other main shareholders are domestic and foreign institutional investors: Crediop, Imi, Lehman Brothers (which is also global co-ordinator for the offer), UBS Capital and M. M. Warburg. At least 35 per cent of the offering will go to institutional investors, with 30 per cent available to the public and up to 5 per cent set aside for Aeroporti di Roma's employees. The public part of the offer opens and closes on July 15.

Robert Graham, Rome

■ JAPANESE STOCKS

Yaohan, Aoki deny troubles

Plunging share prices have forced two Japanese companies to deny that they are in financial difficulties. Shares in Yaohan, the supermarket chain, and Aoki, a medium-sized construction company, fell below Y100 on the Tokyo Stock Exchange on Friday. Yaohan fell Y48 to Y95, while Aoki dropped Y16 to Y84.

Selling of Aoki stocks started in the wake of the collapse of Tokai Kogyo, another medium-sized contractor, which filed for bankruptcy protection last week. Mr Yoichiro Yano, Aoki president, said the company's business conditions were good, and it was reducing its interest-bearing debts. Like most Japanese construction companies, Aoki is suffering from heavy bad debts, but Mr Yano said more provisions bad been made in last year's accounts.

Yaoban Japan has been facing difficulties related to its expansion abroad. However, Mr Mitsumasa Wada, Yaohan president, denied reports that the company was about to file for court protection from creditors.

Markets This Week, Page 21

Bethan Hutton, Tokyo

■ INVESTMENT BANKING

Santander hires UBS dealer

Banco Santander, the fast-growing Spanish bank, appears set for rapid expansion in the capital markets after hiring Mr Bob Harding, the former top bond dealer at Union Bank of Switzerland. Mr Harding, who left UBS abruptly last week, will take charge of global fixed income, derivatives and treasury for Santander. He will be based initially in London hut may move to New York.

Mr Harding is expected to be able to bring sophisticated fixed-income skills to the deht markets of Latin America, where Santander has controlling stakes in Banco Río de la Plata, of Argentina and Banco Geral do Comercio, of Brazil, as well as in banks in Venezuela, Peru, Chile, Colombia, Uruguay and Mexico.

Santander has also been expanding aggressively in asset management, hiring four top managers from Baring Asset Management to set up a new business based in London and Boston. Mr Philip Bullen, Mr Christopher Goudie, Mr Peter Hartley and Ms Kathryn Matthews ran BAM's institutional fund management business for the world excluding Asia.

George Graham, Banking Correspondent

■ RESOURCES

BHP disposals raise $313m

BHP, the Australian resources company, said it had raised a total of US$313m from the sale of non-strategic North and South American assets. The company said it had now completed the divestment programme which began in 1995 and involved selling interests in 1,800 wells in more than 100 fields in the United States, Canada and Argentina.

The latest sale involved BHP Petroleum's interests in the Madden and Long Butte units in Fremont and Natronas Counties in Wyoming to Louisiana Land and Exploration, a US oil company. *John Arbouw, Sydney*

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Prices for Trading on [illegible] — Final Prices for Trading on [illegible]

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	12.10	11.75	12.01	1.07
0100	9.90	11.75	12.01	1.07
0130	9.90	11.75	12.01	1.07
0200	9.90	11.75	12.01	1.07
0230	9.90	11.75	12.01	1.07
0300	9.90	11.75	12.01	1.07
0330	9.90	11.75	12.01	1.07
0400	9.90	11.75	12.01	1.07
0430	9.90	11.75	12.01	1.07
0500	9.90	11.58	11.58	0.00
0530	0.00	7.00	7.00	0.00
0600	0.00	9.01	9.01	0.00
0630	9.20	10.01	10.01	0.00
0700	10.13	11.82	11.82	0.00
0730	19.17	19.47	19.73	1.07
0800	20.29	19.48	19.75	1.07
0830	17.75	19.52	19.81	1.07
0900	20.33	20.91	21.24	1.07
0930	20.38	23.97	24.37	1.07
1000	20.49	28.48	28.94	1.07
1030	20.47	29.59	30.05	1.07
1100	20.57	29.69	30.21	1.07
1130	20.56	30.84	31.39	1.07
1200	20.50	30.90	31.46	1.07
1230	28.64	30.74	31.28	1.07
1300	20.47	28.45	28.92	1.07
1330	20.37	28.20	28.59	1.07
1400	18.25	21.11	21.45	1.07
1430	18.24	20.49	20.81	1.07
1500	18.05	20.46	20.77	1.07
1530	18.09	20.43	20.77	1.07
1600	17.61	20.52	20.65	1.07
1630	22.60	20.64	21.01	1.07
1700	18.34	20.72	21.10	1.07
1730	27.34	31.49	31.84	1.07
1800	27.29	25.85	26.16	1.07
1830	18.05	20.24	20.61	1.07
1900	22.48	19.47	19.73	1.07
1930	17.61	19.46	19.73	1.07
2000	17.21	19.46	19.75	1.07
2030	13.08	19.48	19.73	1.07
2100	10.16	19.46	19.75	1.07
2130	19.17	19.46	19.73	1.07
2200	17.61	23.89	24.15	1.07
2230	24.28	23.89	24.15	1.07
2300	24.29	29.82	30.09	1.07
2330	17.81	29.82	30.09	1.07
2400	16.35	23.73	23.98	1.07

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. [illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Prices for Trading on [illegible] — Final Prices for Trading on [illegible]

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Peter Martin

In search of a miracle worker

Here is the recipe for a genuine economic miracle, perfected by Ludwig Erhard in 1950s Germany: sustained real exchange rate undervaluation plus an economy free and flexible enough to take advantage of it.

The US experience in the mid-1990s bears out this lesson almost perfectly. Though the US advantage in entrepreneurship and technology is genuine, a crucial role during this period was played by a weak dollar, coupled with low wage rises. Now that the exchange rate advantage has been largely neutralised, we can expect the rhetoric about the triumph of the American model to become a little less sweeping.

The US will remain competitive, however, because of the strength of its high-technology sector. In that sense, the US miracle of the 1990s is a genuine one.

Other countries which have benefited from an undervalued currency for a while often have their claims for an economic miracle shown up as hollow once the exchange-rate factor disappears.

For example, the UK's rapid recovery in the mid-1990s has been largely ascribed to the superior flexibility of its economy, compared with that of the continent. There is some truth in this. But the devaluation of 1992, coupled with low wage rises in the years that followed, undoubtedly played a central role in ensuring the competitiveness of British industry.

Now, with the pound back at DM3, the claims for a supply-side transformation of the UK economy will face their stiffest test. The outcome of the British Airways dispute will give an indication of the extent to which those claims are justified. If they are not, the UK case cannot be called a true miracle.

Another miraculous test case is now in preparation, as the chart shows. The devaluation of the D-Mark, taking it back nearly to the level of 1990, has gone hand in hand with rising exports. On the back of this export boomlet, the German economy is showing signs of a steady recovery.

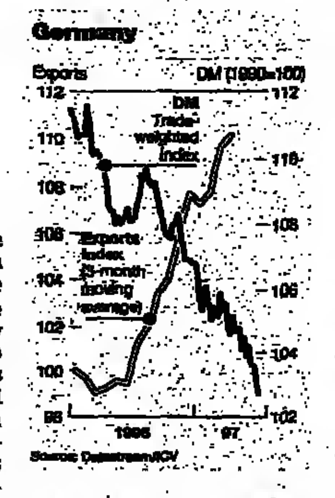
In another nine months or so, expect to see cover stories and breathless headlines about the return of Germany's economic might, especially if worries about the progress of European Monetary Union push the D-Mark down further.

It may satisfy the *amour-propre* to spot such a trend before it becomes part of conventional wisdom, but investors can only benefit if it allows them to exploit undervalued assets.

In Germany's case the task is a difficult one. Buoyed up by the global equity boom, the DAX index is at a record, fully discounting the export-sector gains of the months ahead.

The investment decision therefore turns on two questions. The first is the extent to which labour costs can be held down, to secure the sustained real-exchange rate undervaluation which is an essential element of a true miracle. The second is the Erhard test: is the economy free and flexible enough to take advantage of this undervaluation? By and large, the US possesses such an economy; the UK probably still does not. Germany's even more restricted economy is also unlikely to be able to produce a true miracle, whatever the short-term export gains.

The investment implications are therefore less favourable than the short-term economic outlook would imply. At some point – perhaps sooner than the market expects – the Bundesbank will react to the recovering economy by raising short-term interest rates.



Total return in local currency to 10/7/97

	% change over period US	Japan	Germany	France	Italy	UK
Cash						
Week	0.11	0.01	0.06	0.07	0.13	0.13
Month	0.47	0.05	0.26	0.28	0.59	0.55
Year	6.29	1.11	3.73	4.22	8.36	6.06
Bonds 3-5 year						
Week	0.31	0.12	0.13	0.09	0.35	0.00
Month	1.59	0.90	0.76	0.98	2.99	0.05
Year	9.00	5.70	9.64	9.91	16.91	7.06
Bonds 7-10 year						
Week	0.40	0.17	0.30	0.45	0.77	-0.27
Month	2.32	1.60	1.75	2.20	5.82	0.42
Year	11.24	10.18	14.39	14.86	28.12	11.90
Equities						
Week	-0.2	-1.8	2.8	0.0	1.6	-1.4
Month	5.8	-0.6	8.2	9.4	14.9	0.5
Year	41.6	-6.6	53.8	42.9	38.9	27.4

Source: Cash & Bonds - Lehman Brothers. Equities-@ FT/Excel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

The pressure on long-term rates is likely to be upwards over the medium term, influenced by the prospect of a dilution of the German anti-inflationary obsession when the European Central Bank takes over from the Bundesbank. Once this process is under way, equity valuations will look stretched.

None of this would be a problem if Germany was indeed undergoing a real miracle. As its own past example has shown – and US blue chips have demonstrated most recently – such a virtuous circle allows equity values to outstrip by far their initial plausible range.

The chances are, however, that Germany's improving economic outlook is essentially cyclical rather than structural. It will help the performance of German companies in the short run, and assist the process of creating the euro.

Once the new currency is in existence, there is some scope for further depreciation. But without an economic and social structure that allows German business people to take full advantage of a newly competitive currency, there will be no repeat of Ludwig Erhard's miracle.

COMPANY RESULTS DUE

Compiled By AFX News

Microsoft to show fourth quarter advance

Microsoft is expected on Thursday to report an 80 per cent year-on-year rise to 78 cents in earnings per share for the fourth quarter to June. Analysts said that reflected strong growth in its enterprise systems division and revenue derived from recent upgrades by personal computer owners to the company's applications software.

Analysts said demand for Microsoft applications such as its Office '97 package peaked in the fourth quarter because it was reaching the high end of the "upgrade cycle".

They said the strongest growth for the company appeared in its enterprise systems division, which includes the Windows NT operating systems and its Back Office software.

Mr Andrew Brosseau, analyst with Cowan & Company said: "Some of the revenue they will be booking will have spilled over from deferred revenue in the last quarter. That is the going to be the primary source of that level of growth."

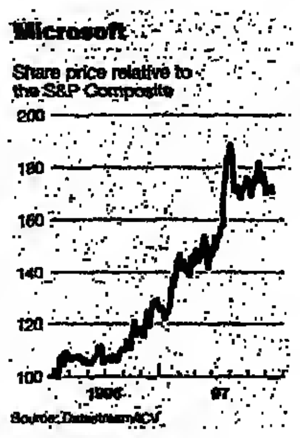
■ Intel's second-quarter earnings per share would beat the year-ago period, but drop 17 per cent from the first quarter on product transition problems which were also likely to cloud its third quarter, analysts said.

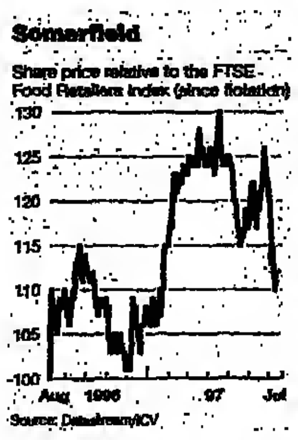
Earnings per share of $1.82 ($1.17) are expected, down from $2.20 for the first quarter. Analysts said that a negative impact on the US technology sector was unlikely given that Intel had flagged a 5-10 per cent revenue and net income shortfall against the first quarter.

Intel cited generally weaker demand, particularly in Europe, while analysts blamed a poorly handled transition to new products as aggressive promotion of its Pentium with MMX technology killed demand for older products and forced deep price cuts.

■ Ford Motor is expected to report solid growth in second-quarter earnings per share, while strike-hit General Motors is expected to announce lower earnings.

GM, which reports on Wednesday, is forecast to announce pre-exceptional earnings per share of $2.61, down from $2.65 a year earlier. Profits are expected to be down by about $480m, or 65 cents per share, because of strikes which shut several key assembly plants.





Ford, which also reports on Wednesday, is expected to announce fully diluted earnings per share of $1.62, compared with $1.38 a year earlier, with some potential for even stronger results.

Ford managed to sustain its first-quarter momentum because of a richer product mix, larger incentives and better cost containment, which in June pushed its US market share to its best level against GM.

Ford's light truck sales during June totalled 196,796 units, up 5.2 per cent on a year earlier, while GM's light truck volumes fell 13.5 per cent. Analysts cited strong sales of Ford's Expedition and Explorer sports utility models.

Ford's North American market share stood at about 27 per cent at the end of June, compared with 25.1 per cent at the end of the first quarter and GM's share of 28.4 per cent at the end of the second quarter. Chrysler's share was about 16.6 per cent.

■ Banco Santander's Banco Español de Credito (Banesto) is expected to report first-half net profit after minorities of Pta16.8bn, up from Pta14.5bn a year earlier, according to analysts.

Banesto's second-half performance will reflect its continued recovery of domestic market share, especially in terms of deposits and its loan portfolio.

Banesto was forced to undergo a rigorous restructuring after the Bank of Spain's intervention in December 1993, on discovering that Banesto had hidden Ptas605bn of losses. The bank was later taken over by Banco Santander.

■ Somerfield will report the results of its first full year as a quoted company on Thursday. The supermarket group is expected to report annual pre-tax profits of about £103m ($174m) compared with £86.2m, but is not likely to show a significant advance in like-for-like sales. Nevertheless, the market is forecasting that gross and net margin improvements will help profits.

■ British Airways holds its annual meeting tomorrow and will probably face angry questions from either staff or shareholders over its handling of the current industrial dispute, which has led to much flight disruption. Investors may ask whether the company thinks the dispute is eroding brand loyalty.

That is an issue which could also be raised in the context of the change of livery, which has led to the union flag being dropped.

On a more strategic note, investors will want to hear of any recent progress on the proposed alliance with American Airlines.

■ The annual meeting of British Telecommunications on Wednesday is set to be interesting, with the profits warning from BT's would-be merger partner, MCI, still ringing in the ears of shareholders.

But as well as progress on that merger, investors will want to hear of any other moves, perhaps in Japan. There may also be some comments on its share of the windfall tax levy.

INTERNATIONAL EQUITIES By Frederick Studemann

Clear reception for ProSieben

For a company which presents itself as something of a pioneer ProSieben, the German media group, picked a good week for its market debut. Against the backdrop of the DAX index surging to new record highs, the country's first television stock ended its first day of trading at DM95 ($54.30), 32 per cent up on the issue price of DM72.

Following a heavily subscribed DM1.26bn issue, the initial jump, which was later modified during the week, reflected keen investor interest in the German media market, Europe's biggest and, in particular, the television sector. A strong marketing campaign, similar in scale to that of Deutsche Telekom last year, also helped to bring in many first-time, private investors. Of the total share issue, 51 per cent went to private investors, while US, European and other institutional investors took the bulk of the remainder.

The attraction of ProSieben, which owns two networks, was relatively clear. While it is ranked second in terms of total audience share, it leads in the market for viewers below 50, the most relevant segment for advertisers. It is also Germany's most profitable television company. In 1996 it reported pre-tax profits of DM178m on sales of DM1.69bn. In the first quarter of 1997 profits were up 32.5 per cent while sales rose 17.1 per cent.

The success of the issue has raised expectations that other media stocks may soon come on to the market. "ProSieben presents interesting possibilities to other other related businesses who might want to make a listing," said Mr Robert Montgomery, director of Kagan World Media in London.

But just who would fit the bill is unclear. Nearly all Germany's big media companies are privately-held, often still by the families who established the businesses immediately after the second world war.

Industry rumours that the commercial television network SAT-1, largely owned by Kirch Group, Europe's biggest film and television distributor, and the Axel Springer publishing group, may be taken public have, so far, proven unfounded. So for now, investors have a choice of just two German media stocks: ProSieben and Axel Springer.

Over the last year Springer's shares have risen sharply in response to rising profits on sales generated, in part, by an overall upturn in business, but also by restructuring moves initiated by the chairman, Mr Jürgen Richter.

Such good news, however, has not fully removed market scepticism about how much influence share-ownership in Springer carries. The company is majority owned by the founder's family which holds 50 per cent and one "golden share". Mr Leo Kirch, owner of Kirch Group, holds 35 per cent, though industry sources claim that his actual stake is closer to 40 per cent, leaving at best 15 per cent for outside investors.

Similar concerns dogged the ProSieben issue which involved 17.5m preference shares. The voting stock remains in the hands of Mr Thomas Kirch, son of Leo, who holds 60 per cent and the Cologne-based retailing group Rewe, which holds 40 per cent.

Critics also point to ProSieben's dependence on the Kirch Group which supplies 45 per cent of the programming on the company's main television network. With programming accounting for 68 per cent of ProSieben's costs, any rise in programming prices would translate swiftly to the bottom line.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JULY 11 1997 US Dollar Index	%chg since 31/12/96	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/96	Gross Div. Yield	THURSDAY JULY 10 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	236.59	6.6	206.99	169.87	217.68	211.82	14.0	3.63	236.14	207.43	168.90	214.98	211.31	243.87	188.44	198.26
Austria (25)	199.64	5.1	174.66	143.43	183.67	183.54	20.8	1.79	201.26	176.81	143.88	183.25	183.13	202.96	174.70	163.18
Belgium (29)	256.11	12.0	223.16	183.28	234.70	229.82	28.9	2.97	257.31	226.03	183.94	234.26	229.43	261.11	206.70	207.48
Brazil (30)	314.00	65.5	274.71	225.58	288.87	624.27	72.1	1.17	322.44	283.24	230.50	293.56	640.59	322.44	170.26	187.41
Canada (127)	217.20	14.4	190.02	156.04	199.82	215.52	14.4	1.69	215.82	189.59	154.28	196.49	214.68	217.20	164.12	159.76
Denmark (32)	406.33	15.4	355.48	291.92	373.82	372.31	31.9	1.37	406.37	356.96	290.49	369.97	368.72	406.37	303.46	307.04
Finland (28)	300.21	22.2	262.65	215.68	276.16	330.33	39.0	1.68	301.49	264.79	215.46	274.43	329.40	304.09	186.67	192.63
France (84)	233.61	9.1	204.38	167.83	214.92	212.65	25.4	2.39	234.91	206.35	167.93	213.87	218.13	237.57	186.94	193.74
Germany (59)	226.94	19.4	198.55	163.04	208.78	208.76	37.2	1.36	226.52	198.99	161.93	206.23	206.28	226.71	168.70	172.80
Hong Kong, China (86)	530.06	4.5	463.73	380.81	487.65	527.16	4.7	2.87	518.00	455.03	370.30	471.60	514.91	539.63	407.55	424.82
Indonesia (27)	243.66	6.8	213.17	175.05	224.17	365.85	10.6	1.77	247.82	217.70	177.16	225.63	369.99	254.90	183.62	204.95
Ireland (17)	369.35	12.3	323.13	265.35	339.79	343.06	25.3	2.80	369.05	324.16	263.81	335.99	340.65	369.35	270.08	280.53
Italy (56)	100.23	20.1	87.69	72.01	92.21	128.53	35.6	1.92	99.04	87.00	70.80	90.17	126.52	100.23	73.26	81.04
Japan (485)	135.98	5.4	118.97	97.69	125.10	97.69	3.2	0.81	136.11	119.57	97.30	123.92	97.30	150.97	107.57	150.96
Malaysia (107)	485.65	-19.5	424.88	348.91	446.80	468.48	-20.1	1.47	483.33	424.56	345.51	440.04	463.36	660.85	483.33	563.16
Mexico (27)	1734.86	42.2	1517.80	1246.22	1595.67	14885.36	41.8	1.25	1736.83	1525.77	1241.65	1581.34	14899.75	1736.93	1110.35	1181.99
Netherlands (19)	422.16	25.8	369.36	303.31	388.41	383.84	44.6	2.03	421.20	370.00	301.10	383.47	379.03	425.66	279.88	292.20
New Zealand (14)	94.78	3.3	82.92	68.09	87.20	75.08	8.9	3.87	94.63	83.13	67.65	86.16	74.72	96.47	79.04	81.71
Norway (41)	320.82	8.6	280.67	230.48	295.15	321.95	25.7	1.91	321.93	282.80	230.14	293.10	320.40	326.60	246.04	255.55
Philippines (22)	143.30	-29.6	125.37	102.95	131.84	214.25	-19.7	0.97	148.96	130.85	106.48	135.62	196.28	214.07	143.30	210.31
Singapore (42)	386.77	-7.9	338.39	277.87	355.83	256.30	-5.3	1.19	386.40	339.43	276.22	351.79	254.72	448.01	380.08	401.98
South Africa (44)	355.78	11.7	311.27	255.61	327.32	353.67	8.7	2.45	355.25	312.06	253.95	323.43	353.41	370.12	301.49	360.72
Spain (33)	269.42	22.6	235.71	193.56	247.87	304.80	40.6	2.16	271.30	238.49	194.06	247.18	304.24	278.05	171.91	178.72
Sweden (49)	508.43	20.5	444.81	365.27	467.75	583.29	36.8	1.77	504.13	442.85	360.38	458.98	575.53	509.48	334.35	347.74
Switzerland (33)	319.86	34.1	279.83	229.79	294.27	289.48	45.8	1.16	326.03	286.40	233.07	296.83	293.13	329.59	231.69	247.55
Thailand (42)	59.16	-38.2	51.76	42.50	54.43	89.34	-27.3	4.45	63.67	55.93	45.51	57.96	72.44	166.36	47.55	165.35
United Kingdom (213)	318.43	12.4	278.59	228.77	292.95	278.59	19.8	3.62	315.04	276.74	225.21	286.82	276.74	316.10	229.63	236.12
USA (644)	371.35	23.0	324.89	266.79	341.63	371.35	23.0	1.66	370.07	325.08	264.55	336.92	370.07	371.95	254.79	262.30
Americas (826)	340.26	23.2	297.68	244.45	313.03	298.44	23.2	1.65	339.21	297.97	242.49	308.82	285.60	340.71	233.09	240.14
Europe (718)	280.89	17.2	245.74	201.80	258.42	260.97	27.6	2.46	280.31	246.23	200.38	255.20	259.40	282.11	204.71	211.32
Nordic (160)	430.50	18.6	376.63	309.28	396.05	430.75	35.1	1.71	428.70	376.58	306.46	390.30	426.27	430.94	291.45	301.39
Pacific Basin (881)	154.00	3.6	134.73	110.64	141.68	112.16	2.4	1.27	153.77	135.08	109.93	140.00	111.47	164.00	127.18	164.00
Euro-Pacific (1599)	206.97	11.0	181.07	148.69	190.41	168.12	15.7	1.94	206.60	181.48	147.69	188.09	167.10	208.00	173.55	183.60
North America (771)	361.84	22.6	316.56	259.95	332.89	360.96	22.6	1.68	360.55	316.72	257.74	328.25	359.72	362.23	248.65	256.08
Europe Ex. UK (505)	254.05	20.0	222.26	182.52	233.72	244.44	36.4	1.81	254.75	223.78	182.11	231.83	243.06	258.23	185.65	192.68
Pacific Ex. Japan (396)	310.21	-1.8	271.40	222.87	285.39	274.60	0.9	2.72	307.38	270.01	218.78	279.85	270.98	320.65	268.97	284.41
World Ex. US (1827)	211.00	11.8	184.60	151.59	194.12	175.16	16.2	1.92	210.67	185.06	150.60	191.80	174.24	211.77	179.94	184.98
World Ex. UK (2258)	256.67	17.3	224.55	184.40	236.13	226.56	18.9	1.60	256.27	225.12	183.20	233.32	225.61	257.28	198.58	206.04
World Ex. Japan (1986)	326.50	19.3	285.64	234.56	300.37	316.09	22.8	1.99	325.49	285.92	232.68	296.33	314.65	326.57	233.10	240.50
The World Index (2471)	261.98	16.9	229.20	188.22	241.02	231.51	19.2	1.80	261.34	229.57	186.82	237.93	230.48	262.29	202.32	208.69

 Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.52 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.04 (Local). Indonesia and Philippines June 28 1996 = 214.14 (US $ Index), 204.33 (Pound Sterling) and 164.40 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 11/7/97: Exchange change: Biochem Pharma (Canada) will be priced from the Montreal exchange instead of Toronto due to [illegible]

MARKETS: This Week

NEW YORK By Tracy Corrigan

US stock prices co[illegible]d b[illegible] set to hit new highs t[illegible]s week yet again, after th[illegible] Nasdaq Composite Index s[illegible] another record on Friday, [illegible]nd the Dow Jones Indus[illegible]al Average ended la[illegible] week in sight of the 8,000 [illegible]ark, seen as the next key [illegible]vel to be broken.

The early ind[illegible]tions from the second-qua[illegible]r earnings season, which [illegible]s into full swing this we[illegible] are that there could be [illegible]me positive surprises fro[illegible]orporate America, whi[illegible] could help to push the [illegible]rket past 8,000.

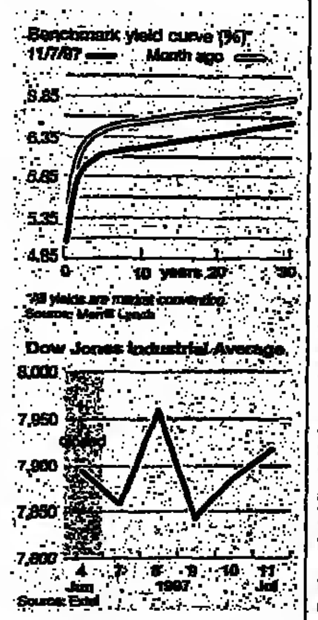
Bond mar[illegible] sentiment also remain[illegible]ositive. The strength of [illegible]e economy continues [illegible]uel some inflationar[illegible] worries, but these are [illegible]ng brushed aside by [illegible] market at present.

Initial [illegible]bless claims for the wee[illegible]nded July 12, due on Thu[illegible]day, are expected to show a [illegible]cline partially unwind[illegible] the prior week's run-up [illegible]ne to summer shutd[illegible]ns. But the unusu[illegible]ly strong jobs mark[illegible] remains a source of conc[illegible].

Al[illegible] under scrutiny will be th[illegible] retail sales figures for Jun[illegible] due to be released on Tue[illegible]y. These are expected to b[illegible]p 0.3 per cent, or 0.4 per [illegible]nt excluding cars, after fall[illegible] 0.1 per cent the previous month, according to Standard & Poor's MMS survey.

The June consumer price index is expected to be up 0.1 per cent, or 0.2 per cent excluding food and energy. It also fell 0.1 per cent in the previous month.

Industrial production, also on Wednesday is expected to show a gain of 0.3 per cent, compared with 0.4 per cent last month, while capacity utilisation is expected to be unchanged at 83.7 per cent.



LONDON By Philip Coggan

No sooner has the London market absorbed last week's quarter of a percentage point rise in base rates than it is looking forward to the next one. A raft of economic statistics this week will give the monetary policy committee topics for its next discussion.

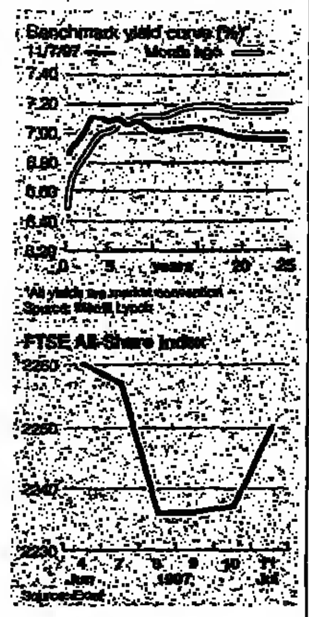
Today's producer prices figures will be one indicator, although raw material costs have not been a problem for some time. More attention will focus on tomorrow's British Retail Consortium survey – especially after the statement from Dixons last week that consumers were spending their windfall building society flotation gains on the high street.

Wednesday will see unemployment and average earnings numbers – rapid wage rises would represent an inflationary threat and the market will watch these numbers closely.

Finally, on Friday, the M4 figures will be published; broad money supply has been growing strongly in recent months.

Gilt investors will also be interested in the public sector borrowing requirement numbers for June, as the new government battles to bring its finances under control. The market will also see the minutes of the first meeting of the monetary policy committee and can start to sort out the hawks from the doves among the individual members.

With the holiday season under way, investors will have few corporate results to analyse; Somerfield and David S Smith are the two groups most likely to grab the market's attention. But sterling's continued strength – it reached a six-year high last Friday – may yet provoke further profit warnings.



FRANKFURT By Graham Bowley

Mr Hans Tietmeyer, president of the Bundesbank, warned last week that the German economy still had important structural problems in spite of the surge in share prices. But the DAX index of leading company shares nevertheless continued its advance, after just a few jitters, ending above 4,000.

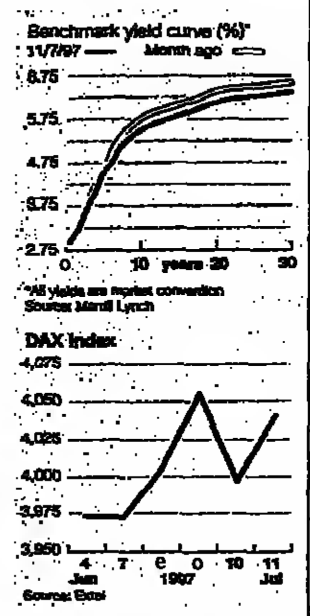
The DAX 30-share index reached a new high of 4,074.3 at the end of electronic trading on Friday, after closing at 4,040.97.

Analysts said the market was likely to remain buoyant this week. They said companies were being helped by low interest rates, stable inflation and the relatively weak D-Mark – a point underlined by the currency's fall on Friday to its lowest level against the pound for six years, as sterling continued to strengthen.

There could be further repercussions in the markets this week following last week's emergency supplementary budget in which Mr Theo Waigel, finance minister, sought approval for sharply higher federal borrowing this year of DM71.2bn. He was forced to declare the German economy "out of balance" because of the cost of mass unemployment in Germany.

Economic data due this week include wholesale price figures, which economists expect to show a fall in the index in June after the 1.7 per cent rise between April and May. The Ifo business sentiment measure, also due this week, is forecast to show a slight pick-up in conditions.

M3 money supply data are expected towards the end of this week. Analysts at UBS forecast an annual rate of 6.7 per cent in June after 7 per cent in May.



TOKYO By Gwen Robinson

Markets are likely to move sluggishly this week, as investors digest recent news about the widening financial scandal affecting banks and securities houses and amid concerns about the health of companies active in the bubble economy era.

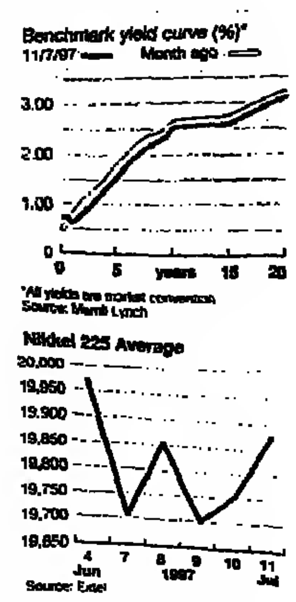
In the equity market, last week's stock trading patterns revealed that the impact of the previous week's collapse of a medium-sized general contractor, Tokai Kogyo, has been greater than predicted.

The eighth-largest corporate collapse in post-war Japan reawakened fears about problems still to surface among companies which took out huge loans for speculative projects in the late 1980s, and the financial institutions that freely provided credit. Such anxieties have hastened the polarisation between strong, internationally-competitive issues – particularly high-tech stocks – and debt-laden laggards such as general contractors and their creditor institutions.

Investors will probably continue to chase blue-chip exporters and keep the market in the 19,500-20,500 range.

The bond market is likely to remain quiet after yields ended the week generally flatter in range-bound trading. However, Mr Ron Bevacqua, economist at Merrill Lynch, noted growing supply concerns following large corporate issues last week, which coincided with a Y400bn 20-year Japanese government bond auction.

"The 20-year JGB auction went modestly well, and the ongoing weakness in bank lending suggest that domestic investors' appetite for and capacity to absorb fixed income securities has not reached its limit."



COMMODITIES By Maggie Urry

Merrill sees sugar price rise

[illegible]orld sugar prices are [illegible]edicted to rise in the [illegible]edium term, in a review of [illegible]e sugar industry by Merrill [illegible]ynch, the US investment [illegible]ouse. The raw sugar price, [illegible]urrently around 11 cents a [illegible]ound, is near the low point [illegible]f its cycle, the firm says.

In spite of excess world stocks, prices have remained in the 10-13 cents range for the past couple of years, according to Merrill. These relatively low prices could cause farmers to switch to other crops, tightening supply and causing prices to recover.

The volatility of sugar prices that had been evident in the 1970s and 1980s has reduced in the 1990s. The price has remained in a 9-13 cents range in the past seven years. The reduction in volatility came in spite of the ending of international agreements that sought to stabilise prices through buffer stocks. However, the agreements were not seen to have worked and the last one expired in 1984.

Merrill puts the price stability of recent years down to the liberalisation of the industry, the removal of tariffs and the growth of emerging countries as producers. Prices could become more volatile again if there was a coincidence of crop disasters in two or three of the largest producing regions.

Because most sugar is used in the country where it is produced, the amount traded is a relatively small part of the world's total sugar production, and the world price is therefore susceptible to sudden increases at times of shortages.

Most growth in production has come from developing countries such as Thailand, Brazil and India, and from cane rather than beet. When prices were around 15 cents, developing countries were encouraged to increase production.

In developed countries there is some switching away from sugar to other sweeteners, but analysts suggest that it would take a sugar price of 18 cents a to make a change from sugar to high fructose corn syrup a significant threat.

OTHER MARKETS Compiled by Jeffrey Brown

Supported by the strength of the dollar, most European bourses start the second half of July at record highs.

PARIS

Trading in Paris took on a nervous edge last week. While the rest of Europe marched steadily higher, the CAC-40 index showed little change as press speculation on the contents of the public finance audit injected a note of uncertainty into investor sentiment.

The market is shut today for Bastille day, but tomorrow it is business as usual. Although most brokers remain confident that the CAC-40 – which closed at 2,941.59 on Friday – can breach 3,000 in the short term, it is clear that macro-economic doubts are beginning to undermine the French market's bullish mood.

Liquidity remains strong, with seasonal dividend payments and redeemed Balladur bonds boosting money flows, and the supply of restructuring stories goes from strength to strength – last week's strong run for Renault and Peugeot stemmed from determined talk of motor industry rationalisation.

But concern about the budget deficit threatens to overshadow equities. The public finance audit is due to be published on July 21. If the rumour-mill is right, the deficit will top 3.6 per cent of gross domestic product and trigger corrective measures from the government.

This week takes in two early birds within the second-quarter results season. Valeo reports tomorrow and SGS-Thomson on Thursday. Brokers see mixed returns, with the former turning strong numbers but SGS comparing badly with its 1996 second quarter. Six-month turnover figures are due from Renault and foods group Danone.

ZURICH

Bid fever swept Zurich last week, sending the SMI index smartly ahead to extend its advances this year to more than 50 per cent. Insurance group Winterthur was at the centre of market speculation, and looks set to stay there this week with Swiss Re and corporate agitator Mr Martin Ebner both sitting on big share stakes.

But the Swiss bourse will also have more rational matters to digest, with interim results from two corporate heavyweights, Roche and Nestlé. Both groups benefited from strong currency gains at the three-month stage, and another batch of bumper numbers is widely expected this time round. Roche (tomorrow) will provide a guide to next week's results from drugs rival Novartis. The Nestlé results were said to be due either Wednesday or Thursday.

HONG KONG

Hong Kong equities ended a volatile week by climbing back to their eve-of-handover levels on Friday, with the Hang Seng index surging 2.6 per cent to 15,225.29.

Given the unsettled currency conditions in a number of competing Asian stock markets "there is every chance that fresh records will be set next week", said one broker.

Having risen from 13,924.3 to 15,196.8 between mid-June and the last day of trading before the July 1 handover, the Hang Seng index has come in for repeated bouts of profit-taking, notably among red chips. Last Wednesday the main red chip index fell almost 7 per cent, its largest ever one-day decline.

However, on Friday brokers were upgrading their short-term targets for Hong Kong equities, helped by a good run for the futures market which ended at a solid premium to cash.

"The name of the game is sticking to the larger cap stocks. We feel this is the best way to avoid the sort of excessive volatility that is going to plough through this market from time to time", said one London-based Asia analyst.

CURRENCIES By Greta Steyn and Simon Piper

Economic data unlikely to turn tide for D-Mark

The D-Mark is likely to get little solace from economic data due this week. Foreign exchange strategists believe it will take something dramatic to turn the tide for the German currency, which at the end of last week hit six-year lows against the dollar and sterling.

The strategists say the key question for the market this week is whether the Bundesbank will intervene to defend the D-Mark. Mr Hans Tietmeyer, the bank president, said on Thursday that the currency's two-year slide had gone far enough.

The market seems to disagree; its view is that the trend that drove the pound through the DM3 barrier on Friday is still intact. Figures on UK producer price inflation, unemployment and money supply growth this week are expected to point to another rise in base rates. The Bank of England's monetary policy committee next meets on August 6.

The focus for the US will be on June retail sales, due tomorrow, seen as one of the main clues as to whether the economy is slowing. Economists expect an increase in sales after a fall the previous month, which could further buoy the dollar.

The currency is expected to continue range trading against the yen, although it could be hit by a strong Japanese trade surplus for June, expected out this week. Japan's May current account surplus caused a brief yen rally last week.

In Germany, the Ifo business climate index for June should show that the export sector is doing well while the domestic economy continues to suffer.

In Asia, the question is which currency is next on the speculators' hit list. On Friday, the Philippine central bank allowed the peso to fall, following the Thai baht's devaluation. Indonesia has been forced to widen the rupiah's trading band, and Malaysia is using strong language and punitive interest rates to frighten off speculators. So far, it has not succeeded.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
ING Group (N'lands)	Equitable of Iowa (US)	Insurance	$2.2bn	ING expansion
BAe (UK)/Rheinmetall (Germany)	STN Atlas Elektronik (Germany)	Electronics	$313m	Cartel office OK
Royal & Sun Alliance (UK)	Prudential Vita (Italy)	Insurance	$77m	More restructuring
AEA Technology (UK)	Hyprotech (Canada)	Computer services	$57m	Growing software arm
RGC (Australia)	Cerro Corona (Peru)	Mining	$37m	Terms agreed
Weir Group (UK)	Entropie (France)	Water treatment	$11m	Strengthening in sector
Avesco (UK)	AVTS (US)	Media services	$10m	Initial 51%
GEC (UK)/Finmeccanica (Italy)	JV	Defence	n/a	Sector rationalisation
KLM (N'lands)	Air UK (UK)	Airlines	n/a	Taking control

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available [illegible] of exchange (rounded) against four key currencies on Friday, July 11, 1997. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	8049.35	4700.00	2684.22	4179.31
Albania	(Lek)	292.315	17[illegible]500	97.4797	151.775
Algeria	(Dinar)	99.6577	58.7500	33.1998	51.8615
Andorra	(French Fr)	10.1253	[illegible]750	3.3766	5.2571
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

		£ STG	US $	D-MARK	YEN (X 100)
Gibraltar	(Gib £)	1	0.5901	0.3333	0.5192
Greece	(Drachma)	471.048	277.970	157.085	244.574
Greenland	(Danish Krone)	11.4185	6.7370	3.8072	5.9278
Grenada	(E Carib $)	4.5754	2.7000	1.5258	2.3756
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)	68.5866	40.4795	22.8758	36.6181
Panama	(Balboa)	1.6946	1	0.5651	0.8798
Papua New Guinea	(Kina)	2.3586	1.3918	0.7866	1.2246
Paraguay	(Guarani)	3675.59	2169.00	1225.70	1908.41
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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MARKETS: This Week

EMERGING MARKETS By John Thornhill

Funds put their faith in Russia

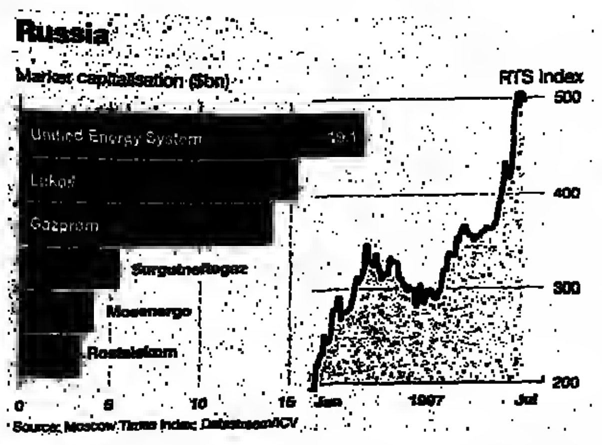
Russian intellectuals, partial to bemoaning the fate of their country, are fond of quoting the poet Pyotr Tyutchev: "You cannot understand Russia with your mind. You cannot measure it by a normal yardstick. Russia has its own unique character. One can only believe in it."

Such sentiments appear to have auffused the Russian equity market. Share prices have surged 155 per cent this year as fund managers panic lest they miss ont on the "world's last great emerging market".

There is now renewed faith that Ruseia will develop into a "normal" market economy, in which giant corporations, boasting prodigious assets, will generate exceptional returns for their shareholders.

Some individual stocks appear to have been swept up in the enthusiasm. Unified Energy Systems, tbe dominant electricity generator, has seen its shares rise almost seven-fold this year, giving it a market value of ebout $19bn – more than the UK's National Power and Powergen combined.

Within four years of its creation, the market's total value hes risen to about $100bn. Analysts argue soberly about wbether it will rise a further five or six times by tbe and of the decade.



Source: Moscow Times Index; Datastream/ICV

Yet it is hard to see what has changed to justify such eupboria. Overall investment is still falling, a non-payments crisie bedevils industry, and, if anything, barter trade appears to be proliferating. Ministers predict the economy may contract again in 1997, its eighth consecutive year of decline, and expect it to grow only modestly next year.

There few yardsticks by which to measure the true value of Russian essets, increasing the dangers of a speculative bubble. No stockbroker can provide satisfactory price/earnings estimates for more than a handful of companies – let alone the market – because of the opacity of Russian accounts. Few companies pay out meaningful dividends providing any yield support. The market, it seems, has not so much moved ahead of the fundamentals; it has simply chosen to ignore them.

Mr Alex Knaster, head of investment banking at Credit Suisse in Moscow, says the market surge has been fuelled by two factors.

First, some big foreign fund management groups have entered the Russian market for the first time, chiefly through buying the American Depositary Receipts of the few giant companies, such as UES, Lukoil, Rostelekom, and Mosenergo, which account for more than half the market's total capitalisation.

Second, Russian banks have begun to switch funds from the government Treasury bill market into equities now that yields have fallen to about 18 per cent.

Mr Knaster euggests the market has run way ahead of itself, and is likely to cool over the eummer. "It is tough to predict when the correction will come but there is clearly reason to expect one."

Some analysts, though, argue that even if the market does fall, fresh investors will only view this as a buying opportunity.

Ms Julia Dawson, head of Russian equity research et ING Barings, argues that Russie's forthcoming inclusion in tbe benchmark emerging markets investable indices – compiled by the International Finance Corporation and Morgan Stanley – will suck in more money in the fourth quarter.

"When a fund manager sees a market going up by 160 per cent in six months they do not want to explain to their boss why they are not in there," she says.

Moreover, she says, there is still good value among meny second-tier stocks. "Investors wbo are used to other emerging markets are looking at the regional telecoms companies, for example, and saying that a valuation of $660 a line looks cheap," she says.

But Mr John Paul Smith, Russia market analyst at Morgan Stanley, argues that the critical factor for investors should be a company's ability to generate cash.

"If you atart trying to value companies on the basis of cash flow, you become much less optimistic," he says. "Many enterprises out there are technically bankrupt, but it is both politically and legally impossible to administer the coup de grace."

"Calling the top of this market is a mug's game. Bnt the more it goes up the more it is going to fall," he says.

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	11/7/97	Week on week movement Actual	Week on week movement Per cent	Month on month movement Actual	Month on month movement Per cent	Year to date movement Actual	Year to date movement Per cent
World (449)	196.24	+0.97	+0.50	+13.28	+7.26	+36.13	+22.58
Latin America							
Argentina (22)	136.77	+3.12	+2.34	+4.40	+3.33	+29.64	+27.67
Brazil (23)	445.92	+16.12	+3.75	+67.94	+17.97	+184.90	+70.83
Chile (19)	227.74	+1.18	+0.52	+11.96	+5.54	+65.29	+40.19
Colombia (12)	241.30	+1.74	+0.73	+4.03	+1.70	+67.61	+38.92
Mexico (28)	117.21	+8.62	+7.94	+17.46	+17.50	+35.54	+43.51
Peru (12)	1,376.98	+9.33	+0.68	+38.92	+2.91	+369.76	+36.71
Venezuela (7)	94.04	+1.19	+1.28	+18.88	+25.12	+31.86	+51.24
Latin America (123)	218.17	+8.04	+3.83	+26.18	+13.62	+74.87	+52.03
Europe							
Czech Rep.(13)	76.95	–5.84	–7.05	–8.18	–9.59	–27.33	–26.21
Egypt (16)	196.40	+1.31	+0.67	–0.74	–0.38	+46.62	+31.12
Greece (18)	177.18	+9.14	+5.44	–9.85	–5.27	+64.87	+57.76
Poland (25)	308.37	+2.07	+0.67	–21.41	–6.49	–35.37	–10.29
Portugal (19)	204.60	+3.75	+1.87	+16.61	+8.78	+58.42	+39.97
Russia (9)	452.52	–13.18	–2.83	+114.93	+34.05	+273.49	+152.76
South Africa (28)	146.26	–0.54	–0.37	–0.85	–0.58	+18.38	+12.61
Turkey (26)	187.67	+2.84	+1.53	+14.28	+8.24	+62.62	+50.08
Europe (129)	143.71	+0.00	+0.00	+3.38	+2.41	+25.38	+21.44
Asia							
China (27)	65.77	–0.89	–1.33	+1.69	+2.63	+9.29	+16.44
Indonesia (30)	164.23	–6.17	–3.62	+4.71	+2.95	+7.80	+4.99
Korea (23)	94.87	–3.58	–3.63	+2.43	+2.63	+13.66	+16.82
Malaysia (24)	220.65	–11.51	–4.96	–17.16	–7.22	–59.78	–21.32
Pakistan (13)	82.43	+4.32	+5.53	+11.01	+15.41	+23.97	+41.01
Philippines (16)	230.70	–37.75	–14.06	–36.63	–13.70	–83.09	–26.48
Taiwan (31)	236.29	+4.75	+2.05	+30.55	+14.85	+50.86	+27.42
Thailand (29)	101.82	–11.06	–8.80	–1.63	–1.57	–53.34	–34.38
Asia (193)	213.37	–7.04	–3.19	+4.90	+2.35	–4.20	–1.83

All indices in $ terms. January 7th 1992=100. Source: ING Baring Securities.

INTERNATIONAL BONDS By Krishna Guha

Tax credit move may give gilts long-term boost

Every cloud, they say, has a silver lining. The abolition of the dividend tax credit in the UK budget, which makes UK equities less attractive to tax-exempt pension funds, could give a long-term boost to gilts.

Few in the UK pension fund business predict a big sell-off of equities in favour of gilts. But most agree that the loss of the tax credit will have a "second order" impact on gilts, as companies end pension contribution holidays and trustees increase the proportion of funds invested in bonds rather than equities.

"This is going to be a huge supporter for the bond market, and for the very long end in particular," says Mr Andrew Roberts, head of bond strategy at UBS. But it is too early to say how or when it will affect the market. "If anyone tells you they know, they are lying," he says.

Many companies will have to increase pension contributions to make up for the cost to their pension funds. Valued on the basis of the present value of their future income, pension funds have in effect suffered a revaluation loss of 15 to 20 per cent.

"Mature funds will suffer more than small ones," says Mr Alan Clifton, managing director of Commercial Union Investment Managers. "Pension funds such as British Steel or ICI will be the main sufferers."

Gilts are likely to benefit if the loss of the tax credit sparks a significant asset reallocation among pension funds. "UK equities are undoubtedly less attractive now relative to gilts, property and overseas equities," says Mr John Betteridge, head of global policy at Prudential Portfolio Managers.

UK equities now yield 2.8 per cent to gross investors, compared with a long-term average historical yield of about 5 per cent. "Some funds will have to change their asset allocations," Mr Betteridge says. "But it does not mean there will be a wholesale shift to gilts from equities."

Even a small shift could have e significant impact on the gilt market. The total value of UK pension funds is estimated at abont £750bn (including insured schemes) – of which 55 per cent is now invested in UK equities.

However, a shift into gilts is not automatic. Actuaries are examining different ways of valuing pension funds – at market value, for instance – which could have a much more profound impact on asset allocation. And even if pension funds shift assets away from UK equities, gilts may not be the sole beneficiaries. Many fund managers hold fast to equities, arguing they provide long-term growth.

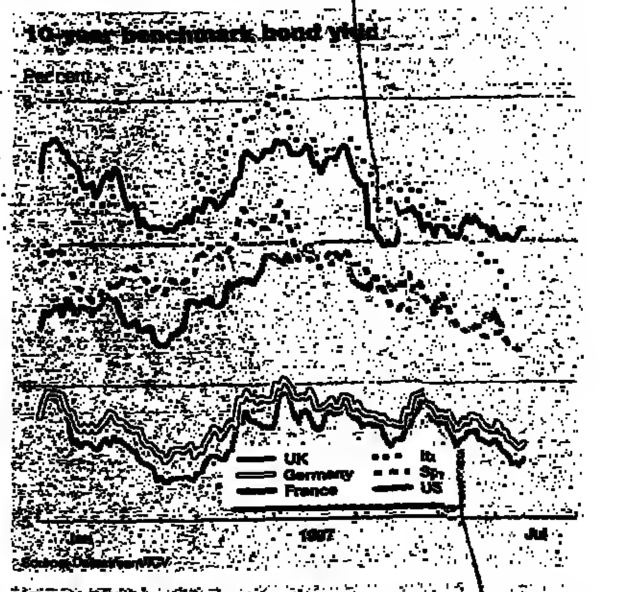
"I wouldn't imagine there will be much substitution of fixed income for equities, but there may be equity-for-equity substitution," says Mr Mike Grimble, investment strategist at Norwich Union.

He says that the focus may shift to capital gains. "We are looking at 8-10 per cent growth in company profits over the next couple of years. This implies good capital returns." Overseas equities may also benefit.

However, long-term trends suggest that a greater proportion of assets will be invested in bonds. Funds have an increasing proportion of retired members and a need for income rather than growth.

"Assets are held to meet liabilities," says Mr Vicky Iqbal, associate actuary at Bacon and Woodrow, who adds that asset allocation is determined primarily by the profile of pension liabilities rather than investment returns. He says the loss of the dividend tax credit would simply reinforce a natural reweighting of pension funds into bonds as the population ages.

Other bond markets are also likely to benefit from this. "In the last few years we have seen less investment in gilts and more in overseas bonds, typically European bonds, but also US Treasuries," says Mr Richard Whitelaw, partner at Bacon and Woodrow.

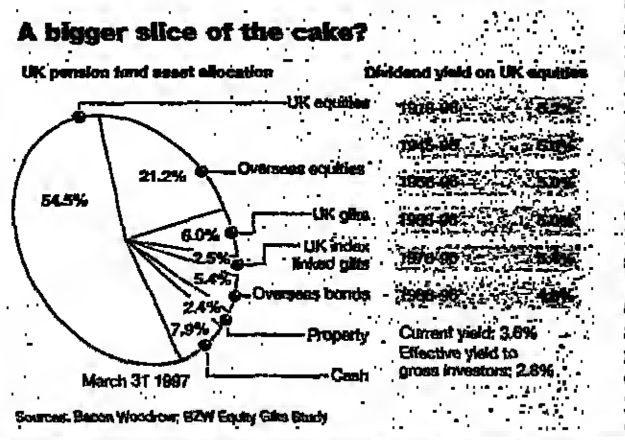


INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	3.10	6.75	6.75
Overnight	n/a	n/a	3.01	3.13	7.19	n/a
Three month	5.13	0.49	3.04	3.25	6.83	6.83
One year	5.51	0.61	3.19	3.37	6.40	7.00
Five year	6.12	1.58	4.37	4.44	5.96	7.02
Ten year	6.22	2.53	5.53	5.39	6.48	7.01

(1) France intervention rate. (2) UK Base rate. Source: Reuters

A bigger slice of the cake?



Sources: Bacon Woodrow; BZW Equity Gilts Study

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
CS Financial Products	300	Aug 2001	6.375	99.92R	6.398	+28(6¼%-May00)	CSFB
IBM International Finance	200	Aug 2001	6.375	99.864R	6.415	+27(6⅝%-May00)	ABN Amro Hoare Govett
World Bank(j)	200	Jul 2000	5.50#	100.00	-	-	Daiwa Europe
SBC Jersey Branch	200	Jul 2000	6.00	99.615R	6.144	+2(6⅝%-May00)	SBC Warburg
Daimler-Benz North America	150	Aug 2001	5.125	95.863R	6.388	+25(6⅝%-May00)	Commerzbank
Canada	1bn	Jul 2002	6.125#	99.487R	6.246	+8(6¼%-Jun02)	Merrill/BMO/Salomon
Banco Real	175	Jul 2000	7.875§	99.8957R	7.930	+190(6⅞%-00)	WestMerchant
Banco Real	75	Jul 2001	8.125§	99.849R	8.170	+205(6⅝%-01)	WestMerchant
Texaco Capital(c)§	200	Aug 2004	3.50	100.00	-	-	CSFB
Republic of Lithuania	200	Jul 2002	7.125#	99.615R	7.218	+105(6¼%-02)	JP Morgan Securities
SBS-Agro Finance(w)	250	Jul 2000	10.25	99.25R	10.56	+425(6⅜%-00)	JP Morgan Securities
Svenska Handelsbanken‡	200	Jul 1998	(d)	100.034	-	-	Chase Manhattan Intl
Kelyo Cork‡	100	Jul 2002	(e)	100.00	-	-	Yamaichi Intl(Europe)
Philip Morris Companies(s)	1bn	Jul 2005	7.00#	99.686R	7.052	+79(6⅝%-May07)	Merrill Lynch
Crédit Local de France(h)	500	Feb 2004	6.50	99.98R	6.494	+25(6¼%-Jun02)	Nomura International
Bankers Trust Intl(f)‡	100	Jul 2007	(f1)	99.773R	-	-	Bear Stearns Intl
World Bank★	100	Jul 1998	5.80	100.643R	5.123	-	IBJ Intl/Wako Intl
Cariwest	75	Aug 2000	6.375	100.2025R	6.298	+22(6⅝%-May00)	BL/Cesabank
Republic of Uruguay	300	Jul 2027	7.875#	99.362R	7.931	+135(6⅛%-26)	ING Barings
UBS Finance(d)	200	Dec 1999	5.875	99.852R	5.961	flat(6%-99)	UBS
Thermo Fibertek(t,s)§	150	Jul 2004	4.50	100.00	-	-	Lehman/Salomon Bros
Tiegel(Cayman Is)Hldg(u)§	110	Jul 2002	1.625	100.00	-	-	Deutsche Morgan G'fell
Banco BMG(v)	100	Jul 2005	9.625§	99.89R	9.668	+365(WI 3yr)	Bank Boston
Bank Austria	100	Aug 2002	6.25	99.96R	6.260	+2(6¼%-Jun02)	Generale/Kreditbank
Lehman Brothers Holdings(C)‡	400	Jul 2004	(C1)	99.771R	-	-	Lehman Brothers Intl
D-MARKS							
Halifax	1bn	Jul 2007	5.625	99.301R	5.732	+10(6%-Jul07)	CSFB
Beta Finance Corp	300	Aug 2002	4.50	99.33R	4.653	+28(4½-Feb02)	SBC Warburg
Bayerische Hypo(k,s)	1bn	Dec 2007	6.75	99.50R	6.852	-	Lehman Bros Bankhaus
CCCMT 1, 97-5, Cls A(m,s)	1bn	Jul 2007	5.75	99.68R	5.79	+25(6%-Jul07)	Merrill Lynch Cap Mkts
LB Schleswig-Holstein Fin	500	Jul 2007	5.625	99.55R	5.685	+17(6%-Jul07)	SBC Warburg
JFS	450	Aug 2002	4.50	99.695R	4.572	+30(4½-Feb02)	Bank of TM/Deutsche
SBC Jersey Branch(n)§	200	Aug 2002	1.00	96.50	-	-	SBC Warburg
DSL Finance	1bn	Jul 2004	5.00	99.07R	5.162	+5(6¼%-Jul04)	Bayerische Vereinsbank
Bovag	300	Aug 2002	4.75	99.97R	4.757	+35(4½-Feb02)	Bayerische Landesbank
Bacob Overseas(p)‡	250	Jul 2007	(p1)	99.875	-	-	Deutsche Morgan G'fell
Bremer LB K Oldenburg(l)	100	Dec 2003	5.00	99.97R	4.896	+15(6%-Sep03)	BGL
YEN							
NTT	100bn	Jul 2007	2.50	99.044R	2.610	+4(JGB 194)	Merrill/Morgan Stanley
GUILDERS							
Republic of Austria(q,s)	1bn	Jul 2027	6.25	98.289R	6.390	+14(7½-Jan23)	ABN Amro Hoare Govett
STERLING							
Midland Bank‡	300	Jul 2000	(a)	100.00R	-	-	HSBC Markets
KfW International Finance	250	Jul 2007	7.25	99.692R	7.294	+15(7¼-Dec07)	HSBC/SBC Warburg
CARD No 4(b)‡	240	Jul 2004	(f1,s)	99.89R	-	-	BZW
Northern Rock B/S(g)‡	50	Jul 2002	(g1)	100.00	-	-	Deutsche Morgan G'fell
Dresdner Finance	150	Jul 2002	7.375	99.831R	7.417	+12(7%-Jun02)	Dresdner KB
GECC	100	Jul 1999	7.25	99.85R	7.333	+15(6%-Aug99)	UBS
MSGGT, 97G-1, Class A(y)‡	150	Dec 2000	(y1)	100.00R	-	-	Salomon Brothers
3i Holdings(A)‡	100	Jul 2007	(A1)	99.64	-	-	SBC Warburg

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
FRENCH FRANCS							
MBNA AESO No2, Cls A(b,i)	3bn	Sep 2007	5.625R	99.634R	5.671	+23(l)	JP Morgan & Co
ING Bank	3bn	Jul 2007	5.625	99.53R	5.688	+20(l)	Banque Lehman Bros
Council of Europe	3bn	Aug 2007	5.50	99.749R	5.535	+12(l)	JP Morgan/SocGen
Banque Paribas(r)	2.75bn	Aug 2007	5.75	99.65R	5.797	+30(l)	Paribas
Sara Lee Corp	1.5bn	Aug 2003	5.00	99.883R	5.023	+26(l)	BNP/SocGen
SWISS FRANCS							
BNG	200	Aug 2009	3.625	102.50	3.368	-	Deutsche Morgan G'fell
KfW International Finance	700	Aug 2007	3.50	102.625	3.189	-	CSFB/Merrill Lynch
Province of Newfoundland	150	Aug 2002	3.25	102.25	2.762	-	UBS
IBM Intl Finance(o)	125	Dec 2001	2.50	101.50	-	-	Banque Paribas(Suisse)
ITALIAN LIRE							
Südwestdeutsche LB	300bn	Aug 2007	6.50	101.82	6.250	-	BCI/BNP/S Paolo, Turin
Bayerische Landesbank	300bn	Aug 2002	5.875	101.50	5.524	-	IMI Lux/M dei Paschi
Banque Paribas(o)	400bn	Aug 2007	(n)	100.00	6.838	-	Paribas
Abbey Natl Trsy Services	300bn	Aug 2002	6.00	101.86	5.584	-	Credito/Paribas
World Bank	1000bn	Jan 2007	(z,s)	99.455R	6.213	-	Cariplo/Deutsche MG
Republic of Argentina	750bn	Aug 2007	(B)	99.50R	8.34	-	Chase Manhattan Intl
ECU							
Banque Paribas(u,r)	150	Aug 2007	5.75	97.005R	6.180	+36½(5½-07)	Paribas
PESETAS							
European Inv'ment Bank(s)	10bn	Jan 2006	5.75	99.528	-	-	UBS
CANADIAN DOLLARS							
Rabobank Nederland	100	Aug 2003	5.50	99.375R	5.626	+5(5½%Sep02)	CIBC Wood Gundy
NEW ZEALAND DOLLARS							
Commerzbank O'seas Fin(l)	100	Aug 2001	6.75	100.75	6.531	-	Hambros Bank
LB Schleswig-Holstein	100	Aug 2001	6.50	99.875	6.537	-	Toronto Dominion Bank
HONG KONG DOLLARS							
Federal Natl Mtg Assoc	1.5bn	Jul 2002	8.00	99.832R	6.891	+34½(Jun02)	HSBC/Merrill Lynch

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ¢With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) 3-mth Libor flat. b) America European Structured Offerings. Collateralised by US credit card receivables. c) Conversion price: $140.1475. Callable from Aug 99 at par. d) 3-mth Libor -6¼bp. e) 6-mth Libor +20bp. f Charter Assets Receivables Dealings. Secured on credit card receivables originated by MBNA. Legal maturity: 15/9/06. f1) 3-mth Libor +8bp. g) Callable on 13/7/98 at par. g1) 3-mth Libor +47bp to Jul 98, then 8¾% fixed annual. h) Fungible with $1bn. Plus 155 days accrued. i) Over interpolated yield. j) Callable from Jul 02 at par. l1) 3-mth Libor +25bp to Jul 02, then +75bp. k) Repaid on 1/8/08. l) Long 1st coupon. m) Citibank Credit Card Master Trust. Legal maturity: 16/7/09. Class B: DM64m, 6%, 100.0R, Jul07. n) Convertible into equally weighted basket of Axa, Allianz, Aegon, Swiss Re and Zurich Insurance at 22.5% premium. Callable from 7/8/00 at par. o) Fungible upon Emu. p) 10% to 6/8/99, then 5⅝%. q) Fungible with Sch150m upon Emu. r) Spread relates to French govt Ecu OAT. s) Short 1st coupon. t) Conv price: $12.10. Callable from Jul 00. u) Conv price: HK$2.3482. FX: 7.7427HK$/US$. Premium redemption: 132.6618%. Callable from Jul 00, subject to 130% hurdle, at accreted value. Greenshoe: $20m. v) Callable and puttable on 17/7/00 & 02 at par. w) Includes $60m increase at 99.446R, +420bp. x) Callable from Jul 02 at par. x1) 3-mth Libor +32½bp to Jul 02, then +182½bp. y) Money Store Global Senior Trust. Av life: 1.34 yrs. Legal maturity: 15/8/27. y1) 1-mth Libor +10bp. z) 8.3% to 2/1/99, then 5.4%. A) Fungible with £100m. Plus 14 days accrued. A1) 3-mth Libor +10bp. B) 10% to 11/8/99, then 7⅝%. C) Callable on 30/7/01 at par. C1) 3-mth Libor +35bp. Note: Yields are calculated on ISMA basis.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Jul 11		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	21.0985	+0.3036	887 - 082	21.1118	20.7943	21.0441	3.1	20.9314	3.2	20.425	3.2	102.0
Belgium	(BFr)	61.9038	+0.885	552 - 523	61.9630	60.9810	61.7238	3.5	61.3538	3.6	59.8038	3.7	101.4
Denmark	(DKr)	11.4165	+0.1574	121 - 209	11.4327	11.2514	11.385	3.3	11.321	3.3	11.0295	3.4	103.7
Finland	(FM)	8.8848	+0.0969	785 - 911	8.8920	8.7790	8.8596	3.4	8.807	3.5	8.5943	3.3	81.8
France	(FFr)	10.1253	+0.1349	220 - 285	10.1315	9.9888	10.0923	3.9	10.0353	3.6	9.7598	3.5	103.7
Germany	(DM)	2.9987	+0.0432	974 - 000	3.0031	2.9527	2.9893	3.7	2.9709	3.8	2.8834	3.8	102.2
Greece	(Dr)	471.048	+5.898	818 - 278	471.488	465.038	472.831	-4.5	475.455	-3.7	483.823	-2.7	65.0
Ireland	(I£)	1.1171	+0.0115	161 - 181	1.1183	1.1040	1.1166	0.5	1.1152	0.7	1.1043	1.1	99.2
Italy	(L)	2909.71	+22.98	792 - 150	2917.62	2881.14	2909.79	0.0	2909.79	0.0	2907.16	0.1	78.3
Luxembourg	(LFr)	61.9038	+0.885	552 - 529	61.9630	60.9910	61.7239	3.5	61.3539	3.8	59.5038	3.7	101.4
Netherlands	(Fl)	3.3756	+0.0462	743 - 769	3.3788	3.3270	3.3654	3.6	3.3445	3.7	3.2485	3.8	100.8
Norway	(NKr)	12.5291	+0.154	210 - 371	12.5911	12.3768	12.4968	3.1	12.4358	3.0	12.1566	2.9	96.4
Portugal	(Es)	302.317	+3.898	076 - 558	302.736	298.434	302.161	0.6	301.831	0.5	297.543	1.8	92.4
Spain	(Pta)	252.894	+3.249	809 - 979	253.370	249.570	252.578	1.5	251.829	1.7	247.459	2.1	76.6
Sweden	(SKr)	13.1324	+0.1174	229 - 418	13.1725	13.0085	13.1049	2.5	13.0484	2.8	12.7899	2.6	84.7
Switzerland	(SFr)	2.4738	+0.0263	723 - 752	2.4772	2.4419	2.4629	5.3	2.4403	5.4	2.3401	5.4	105.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	105.0
Ecu	-	1.5218	+0.0183	207 - 224	1.5231	1.5011	1.5183	2.8	1.5111	2.7	1.4771	2.9	-
SDR†	-	1.213474	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6939	+0.0064	934 - 943	1.6983	1.6868	-	-	-	-	-	-	-
Brazil	(R$)	1.8303	+0.0088	297 - 308	1.8335	1.8206	-	-	-	-	-	-	-
Canada	(C$)	2.3221	+0.0038	211 - 230	2.3309	2.3173	2.3152	3.5	2.3016	3.5	2.2507	3.1	85.2
Mexico	(New Peso)	13.3001	-0.0302	878 - 125	13.3629	13.2767	-	-	-	-	-	-	-
USA	($)	1.6946	+0.0069	942 - 950	1.6986	1.6870	1.693	1.1	1.6895	1.2	1.672	1.3	102.6
Pacific/Middle East/Africa													
Australia	(A$)	2.2811	+0.0104	793 - 828	2.2842	2.2657	2.2805	0.3	2.2786	0.4	2.2685	0.6	91.1
Hong Kong	(HK$)	13.1269	+0.0599	229 - 308	13.1572	13.0829	13.1259	0.1	13.1194	0.2	13.0644	0.5	-
India	(Rs)	60.5056	+0.1799	491 - 624	60.6270	60.2770	60.701	-3.9	61.1016	-3.9	62.7813	-3.8	-
Israel	(Shk)	6.0304	+0.0384	236 - 371	6.0377	5.9978	-	-	-	-	-	-	-
Japan	(Y)	192.600	+1.738	478 - 722	193.500	190.680	191.58	6.4	189.555	6.3	180.57	6.2	134.6
Malaysia	(M$)	4.2445	+0.0485	426 - 463	4.2533	4.1984	4.2488	-1.2	4.2568	-1.2	4.2754	-0.7	-
New Zealand	(NZ$)	2.5280	+0.0185	260 - 299	2.5366	2.5097	2.5278	0.1	2.5288	-0.1	2.536	-0.3	110.1
Philippines	(Peso)	50.8382	+8.215	789 - 975	51.8804	49.8622	50.999	-3.8	51.2475	-3.2	52.3045	-2.9	-
Saudi Arabia	(SR)	6.3556	+0.0259	533 - 579	6.3698	6.3279	6.3521	0.7	6.3437	0.8	6.3072	0.8	-
Singapore	(S$)	2.4369	+0.0226	354 - 383	2.4397	2.4152	2.4323	2.3	2.4222	2.4	2.374	2.6	-
South Africa	(R)	7.7113	+0.0297	069 - 156	7.7371	7.6704	7.772	-8.5	7.8899	-9.3	8.3269	-8.0	-
South Korea	(Won)	1508.19	+7.82	445 - 194	1511.97	1501.84	-	-	-	-	-	-	-
Taiwan	(T$)	47.2794	+0.2769	343 - 244	47.3840	47.0167	47.2629	0.4	47.2231	0.5	47.0254	0.5	-
Thailand	(Bt)	51.1770	+1.702	954 - 585	51.4390	47.5170	51.5136	-7.9	51.9752	-6.2	53.0054	-3.6	-

1 Rates for Jul 10. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 11		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan Index
Europe													
Austria	(Sch)	12.4504	+0.1289	476 - 532	12.4540	12.3170	12.4264	2.3	12.3774	2.3	12.1534	2.4	131.9
Belgium	(BFr)	36.5300	+0.375	100 - 500	36.5540	36.1220	36.455	2.5	36.3035	2.5	35.61	2.5	101.8
Denmark	(DKr)	6.7370	+0.0657	360 - 380	6.7435	6.6685	6.7253	2.1	6.701	2.1	6.5948	2.1	103.5
Finland	(FM)	5.2430	+0.036	405 - 455	5.2455	5.2024	5.2315	2.6	5.2079	2.7	5.112	2.5	81.4
France	(FFr)	5.9750	+0.0565	745 - 755	5.9790	5.9189	5.9634	2.3	5.9396	2.4	5.8309	2.4	103.5
Germany	(DM)	1.7696	+0.0184	692 - 699	1.7703	1.7505	1.7658	2.6	1.759	2.6	1.723	2.6	102.3
Greece	(Dr)	277.970	+2.24	900 - 040	278.200	275.590	279.265	-5.6	281.32	-4.8	288.47	-3.8	64.8
Ireland	(I£)	1.5170	-0.0095	160 - 180	1.5305	1.5150	1.5182	0.8	1.5153	0.4	1.5157	0.1	-
Italy	(L)	1717.05	+6.6	640 - 770	1720.00	1708.85	1718.82	-1.2	1721.83	-1.1	1725.25	-0.5	75.8
Luxembourg	(LFr)	36.5300	+0.375	100 - 500	36.5540	36.1220	36.455	2.5	36.3035	2.5	35.61	2.5	101.8
Netherlands	(Fl)	1.9920	+0.0204	917 - 923	1.9930	1.9711	1.9877	2.6	1.9792	2.6	1.9415	2.5	101.2
Norway	(NKr)	7.3935	+0.061	905 - 965	7.4240	7.3307	7.3791	2.3	7.3506	2.3	7.2389	2.1	95.0
Portugal	(Es)	178.400	+1.58	300 - 500	178.600	176.850	178.364	0.2	178.31	0.2	177.14	0.7	93.0
Spain	(Pta)	149.235	+1.315	220 - 250	149.550	147.900	149.19	0.4	149.015	0.6	147.84	0.9	76.4
Sweden	(SKr)	7.7496	+0.0579	458 - 533	7.7714	7.7065	7.7405	1.4	7.7212	1.5	7.6472	1.3	84.2
Switzerland	(SFr)	1.4598	+0.0096	593 - 603	1.4617	1.4475	1.4545	4.4	1.4438	4.4	1.3983	4.2	105.1
UK	(£)	1.6946	+0.0069	942 - 950	1.6986	1.6870	1.693	1.1	1.6895	1.2	1.672	1.3	103.6
Ecu	-	1.1138	-0.0089	134 - 141	1.1245	1.1130	1.1152	-1.6	1.1164	-1.7	1.134	-1.8	-
SDR†	-	0.71816	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9996	-0.0003	995 - 996	0.9996	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	1.0801	+0.0006	800 - 801	1.0805	1.0783	-	-	-	-	-	-	-
Canada	(C$)	1.3703	-0.0034	700 - 705	1.3736	1.3688	1.3672	2.8	1.3615	2.6	1.3409	2.1	84.6
Mexico	(New Peso)	7.8465	-0.05	430 - 540	7.8570	7.8420	7.957	-16.6	8.168	-16.3	9.0785	-15.7	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	103.1
Pacific/Middle East/Africa													
Australia	(A$)	1.3461	+0.0007	454 - 468	1.3470	1.3448	1.3459	0.2	1.3454	0.2	1.341	0.4	92.8
Hong Kong	(HK$)	7.7463	+0.0038	458 - 468	7.7475	7.7430	7.7468	-0.1	7.7477	-0.1	7.75	0.0	-
India	(Rs)	35.7050	-0.04	800 - 300	35.7400	35.6950	35.8425	-4.6	36.1275	-4.7	37.34	-4.6	-
Israel	(Shk)	3.5586	+0.0062	554 - 617	3.5624	3.5544	-	-	-	-	-	-	-
Japan	(Y)	113.655	+0.565	610 - 700	114.000	113.020	113.14	5.4	112.14	5.3	107.84	5.1	136.0
Malaysia	(M$)	2.5047	+0.0155	042 - 052	2.5055	2.4890	2.5093	-2.2	2.5182	-2.2	2.5482	-1.7	-
New Zealand	(NZ$)	1.4916	+0.0049	910 - 925	1.4933	1.4877	1.4926	-0.8	1.495	-0.9	1.5051	-0.9	-
Philippines	(Peso)	30.0000	+3.56	000 - 000	30.7150	29.4000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	500 - 510	-	-	3.7512	-0.2	3.7522	-0.2	3.7569	-0.2	-
Singapore	(S$)	1.4380	+0.0075	375 - 385	1.4395	1.4310	1.4363	1.5	1.4325	1.5	1.413	1.7	-
South Africa	(R)	4.5505	-0.001	490 - 520	4.5566	4.5430	4.591	-10.7	4.6705	-10.5	4.973	-9.3	-
South Korea	(Won)	890.000	+1	000 - 000	893.600	897.500	-	-	-	-	-	-	-
Taiwan	(T$)	27.9000	+0.05	800 - 200	27.9210	27.8550	27.911	-0.5	27.92	-0.3	28.0125	-0.4	-
Thailand	(Bt)	30.2000	+0.885	000 - 000	30.4000	28.1500	30.845	-17.7	31.35	-15.2	32.58	-7.9	-

1 SDR rate per $ for Jul 10. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jul 10: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

July 11	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.10	-	4.75
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.10	-	4.75
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
Ireland	6	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
week ago	6	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.75	6.25	6.62
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.75	6.25	6.82
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.50	2.90
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.50	2.90
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.44	5.52	5.60	5.75	-	-	-
week ago	-	5.44	5.59	5.68	5.86	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo-Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jul 11	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	$3\frac{1}{32}$ - 3	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.23	94.23	-	94.24	94.22	36,509	544,428
Dec	94.07	94.07	-	94.09	94.06	53,316	446,632
Mar	93.54	93.56	-0.46	93.59	93.54	2,586	68,070

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.90	94.90	-	94.91	94.89	268	7,937
Dec	-	94.76	-	94.77	-	52	601

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jul 11		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.44	16.36	4.844	1.805	4700	5.453	20.24	488.4	408.5	21.21	3.996	1.615	3.751	2.737	311.1	2.458
Denmark	(DKr)	54.22	10	8.869	2.627	0.978	2549	2.957	10.97	264.8	221.5	11.50	2.167	0.876	2.034	1.484	168.7	1.333
France	(FFr)	61.14	11.28	10	2.962	1.103	2874	3.334	12.37	298.6	249.6	12.97	2.443	0.988	2.293	1.674	190.2	1.503
Germany	(DM)	20.64	3.807	3.376	1	0.373	970.3	1.126	4.178	100.8	84.33	4.379	0.825	0.333	0.774	0.565	64.23	0.507
Ireland	(I£)	55.42	10.22	9.064	2.684	1	2605	3.022	11.22	270.6	226.4	11.76	2.215	0.895	2.079	1.517	172.4	1.362
Italy	(L)	2.127	0.392	0.348	0.103	0.038	100	0.116	0.431	10.39	8.691	0.451	0.085	0.034	0.080	0.058	6.618	0.052
Netherlands	(Fl)	18.34	3.382	3.000	0.888	0.331	862.0	1	3.712	89.58	74.92	3.890	0.733	0.296	0.688	0.502	57.06	0.451
Norway	(NKr)	49.41	9.112	8.081	2.393	0.892	2322	2.694	10	241.3	201.6	10.48	1.974	0.798	1.853	1.353	153.7	1.214
Portugal	(Es)	20.48	3.776	3.349	0.992	0.370	962.5	1.117	4.144	100	83.65	4.344	0.816	0.331	0.768	0.561	63.71	0.503
Spain	(Pta)	24.48	4.514	4.004	1.186	0.442	1151	1.335	4.954	119.5	100	5.193	0.978	0.395	0.918	0.670	76.16	0.602
Sweden	(SKr)	47.14	8.693	7.710	2.283	0.851	2216	2.570	9.541	230.2	192.6	10	1.884	0.761	1.768	1.290	146.7	1.159
Switzerland	(SFr)	25.02	4.615	4.093	1.212	0.452	1176	1.365	5.065	122.2	102.2	5.309	1	0.404	0.938	0.685	77.86	0.615
UK	(£)	61.90	11.42	10.13	2.999	1.117	2910	3.378	12.53	302.3	252.9	13.13	2.474	1	2.322	1.695	192.6	1.521
Canada	(C$)	26.66	4.916	4.360	1.291	0.481	1253	1.454	5.396	130.2	108.9	5.655	1.065	0.431	1	0.730	82.94	0.655
USA	($)	36.53	6.737	5.975	1.770	0.659	1717	1.992	7.394	178.4	149.2	7.750	1.460	0.590	1.370	1	113.7	0.898
Japan	(Y)	32.14	5.928	5.257	1.557	0.580	1511	1.753	6.505	157.0	131.3	6.819	1.284	0.519	1.206	0.880	100	0.790
Ecu	-	40.69	7.504	6.655	1.971	0.734	1912	2.219	8.235	198.7	166.2	8.632	1.626	0.657	1.526	1.114	126.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	0.5736	0.5663	-0.0071	0.5742	0.5660	32,160	105,001
Dec	0.5763	0.5700	-0.0072	0.5763	0.5696	214	1,131
Mar	0.5760	0.5737	-0.0073	0.5750	0.5750	123	348

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	0.6953	0.6881	-0.007	0.6960	0.6872	22,816	47,388
Dec	0.7016	0.6955	-0.007	0.7016	0.6947	170	1,148
Mar	-	0.7031	-0.007	0.7078	0.7078	500	568

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	0.8922	0.8856	-0.0068	0.8933	0.8848	9,889	67,151
Dec	0.8988	0.8971	-0.0067	0.8992	0.8965	82	988
Mar	-	0.9088	-0.0068	-	0.9169	1	108

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	1.6852	1.6866	+0.004	1.6860	1.6834	6,787	64,368
Dec	1.6850	1.6830	+0.004	1.6850	1.6850	29	881
Mar	-	1.6772	+0.004	1.6840	-	1	3

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jul	Aug	Sep	PUTS Jul	Aug	Sep
1.680	1.13	2.38	2.88	-	1.38	2.06
1.690	0.22	1.83	2.41	0.03	1.81	2.51
1.700	-	1.38	1.98	0.75	2.38	3.05

Previous day's vol., Calls 929 Puts 3,100. Prev. day's open int., Calls 30,707 Puts 35,467

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jul	Aug	Sep	PUTS Jul	Aug	Sep
0.570	-	0.36	0.94	0.60	0.82	1.02
0.575	-	0.23	0.46	1.08	1.18	1.35
0.580	-	0.15	0.32	1.58	1.59	1.88

Previous day's vol., Calls 1,820 Puts 177. Prev. day's open int., Calls 11,783 Puts 17,177

UK INTEREST RATES

LONDON MONEY RATES

Jul 11	Over night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]		
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from Jul 10, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Jul 11, 6.5851pc. ECGD fixed rate Stlg. Export Finance. Make up day Jun 30, 1997. Agreed rate for period Jul 26, 1997 to Aug 25, 1997, Scheme III 7.08pc. Reference rate for period May 31, 1997 to Jun 30, 1997, Schemes IV & V 6.738pc. Finance House Base Rate 7pc from Jul 1, 1997

BANK OF ENGLAND TREASURY BILL TENDER

	Jul 11	Jul 4
Bills on offer	£200m	£200m
Total of applications	£1,180m	£910m
Total allocated	£200m	£200m
Min. accepted bid	£98.350	£98.340
Allotment at min. level	31%	45%
Top accepted rate	6.6181%	6.6582%
Ave. rate of discount	6.5851%	6.5963%
Average yield	6.7054%	6.7065%
Offer at next tender	£200m	£200m
Min. accept. bid 92 days	-	-

■ Pound in New York

Jul 11	—Close—	—Prev. close—
£ spot	[illegible]	[illegible]
1 mth	[illegible]	[illegible]
3 mth	[illegible]	[illegible]
1 yr	[illegible]	[illegible]

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on the Markets page in today's edition.

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	Scottish Widows Bank	6.75
Allied Irish Bank (GB)	6.75	Exeter Bank Limited	7.75	●Singer & Friedlander	6.75
●Henry Ansbacher	6.75	Financial & Gen Bank	7.50	●Smith & Williamson Secs	6.75
Bank of Baroda	6.75	●Robert Fleming & Co	6.75	Sun Banking Corp Ltd	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	TSB	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	United Bank of Kuwait	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Unity Trust Bank Plc	6.50
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Western Trust	6.50
Bank of Scotland	6.75	C. Hoare & Co	6.75	Whiteaway Laidlaw	6.75
Barclays Bank	6.75	Hongkong & Shanghai	6.75	Yorkshire Bank	6.75
Brit Bk of Mid East	6.50	Investec Bank (UK) Ltd	6.75		
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75		
Citibank NA	6.50	●Leopold Joseph & Sons	6.75		
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Midland Bank	6.75		
Coutts & Co	6.75	NatWestminster	6.75		
Cyprus Popular Bank	6.75	●Rea Brothers	6.75		
		Royal Bk of Scotland	6.75		

● Members of London Investment Banking Association
* In administration

OTHER STATISTICS

STOCK INDICES

	Jul 11	Jul 10	Jul 9	Jul 8	Jul 7	1997 High	1997 Low	Since comp. High	Since comp. Low
FTSE 100	4799.5	4767.8	4762.4	4758.5	4810.7	4831.7	4056.6	4831.7	986.9
FTSE 250	4408.3	4386.2	4385.5	4400.8	4426.9	4729.4	4388.2	4729.4	1379.4
FTSE 250 ex IT	4402.9	4380.7	4380.8	4396.7	4424.1	4773.8	4380.7	4773.8	1378.3
FTSE 350	2301.6	2287.2	2285.0	2285.0	2308.0	2320.9	2017.9	2320.9	664.5
FTSE SmallCap	2204.36	2204.82	2212.97	2217.28	2224.36	2374.20	2178.29	2374.20	1363.79
FTSE SmallCap ex IT	2171.05	2173.17	2182.06	2187.79	2190.05	2382.38	2171.05	2382.38	1363.79
FTSE All-Share	2250.41	2237.18	2236.64	2235.86	2257.42	2269.36	1969.76	2269.36	61.92

	Jul 11	Jul 10	Jul 9	Jul 8	Jul 7	1997 High	1997 Low	Since comp. High	Since comp. Low
FTSE Fledgling	1252.38	1251.77	1253.17	1252.82	1255.70	1348.52	1223.48	1346.52	31.34
FTSE Eurotrack 100	2657.44	2649.24	2680.33	2653.83	2637.25	2680.53	1893.80	2680.53	900.45
FTSE Eurotrack 200	2642.15	2622.81	2642.05	2626.43	2618.85	2642.15	1947.11	2642.16	938.52
FT 30	3052.70	3037.3	3030.1	3024.5	3051.7	3082.0	2762.5	3082.0	49.4
FT Govt Securities	97.15	96.77	96.88	97.16	97.28	97.61	93.31	127.40	49.18
FT Fixed Interest	125.00	125.17	125.30	125.33	124.75	126.33	113.85	133.87	50.53
FTSE Gold Mines	1360.44	1326.24	1282.11	1292.02	1270.14	1987.49	1270.14	2520.79	822.16

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997 High	1997 Low	Stock	Closing price p	+or-
200	Nil	16/7	24½pm	7½pm	Benchmark Group	16½pm	+1
2	Nil	21/7	1½pm	¾pm	Dragon Oil	¾pm	
20	Nil	28/7	27½pm	2¾pm	Mackie Intl	7½pm	-1½
17.5	Nil	22/7	1¼pm	¾pm	Marylebone Wrwk	¾pm	
1	Nil	15/7	½pm	¼pm	Millwall Hldgs	¼pm	
76	Nil	11/7	7½pm	5pm	Waterfall Hldgs	5½pm	

pm premium.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	79.8	127½	124½	Ashtenne	126½		W5.0	1.8	4.9	14.2
§150	F.P.	30.5	152½	149½	AIT	150½		L1.38	3.9	1.1	28.3
*	F.P.	2.02	26	24	†Euro Mining Fin	25		-	-	-	-
§150	F.P.	230.4	190	182½	Galen Hldgs	190	+7½	L0.9	5.7	0.6	30.6
§2.5	F.P.	3.00	3½	3	Greenoak Hldgs	3		-	-	-	-
§	F.P.	1.20	1	½	Greenoak Hld Wrt	1		-	-	-	-
§	F.P.	13.5	140½	134½	Primesight	135		-	-	-	13.5
100	F.P.	33.1	112½	99½	Raeburne Martin	110		-	-	-	-
§	F.P.	68.9	227	204½	Royalblue Grp	208½	-1½	1.5	2.6	0.9	52.9
§100	F.P.	7.81	120½	110	†SBS Group	110		L2.4	2.0	2.7	19.4
§150	F.P.	117.0	157½	154½	SGB Group	156		L4.4	2.8	3.5	12.7
*	F.P.	4,792	373½	281½	Woolwich	288½	-4½	L7.9	2.1	3.3	17.6

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

BANK RETURN

BANKING DEPARTMENT	Wednesday July 9, 1997	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	1,318,455,933	+178,291,405
Bankers deposits	2,575,880,653	+171,289,853
Reserve and other accounts	3,253,144,788	-176,057,773
	7,162,044,354	+173,523,485
Assets		
Government securities	1,376,765,305	-14,840,000
Advance and other accounts	4,475,951,924	+503,641,072
Premises, equipment and other secs	1,299,166,633	-318,046,176
Notes	11,022,031	+2,559,015
Coin	127,861	+9,573
	7,162,044,354	+173,523,485
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	21,808,977,969	+17,440,984
Notes in Banking Department	11,022,031	-2,559,015
	21,820,000,000	+20,000,000
Assets		
Other Government securities	17,597,822,287	+880,320,078
Other Securities	4,222,177,713	-860,320,078
	21,820,000,000	+20,000,000

FTSE GOLD MINES INDEX

	Jul 11	% chg on day	Jul 10	Mid Cap Gold	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (31)	1355.44	-25.4	[illegible]	[illegible]	[illegible]	[illegible]	2691.31	1270.14
Regional Indices								
Africa (14)	1401.69	-34.1	[illegible]	[illegible]	[illegible]	[illegible]	2681.21	1324.06
Australasia (6)	1490.19	-32.6	[illegible]	[illegible]	[illegible]	[illegible]	2458.10	1338.10
North America (11)	1343.33	-20.4	[illegible]	[illegible]	[illegible]	[illegible]	1951.49	1244.23

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UK GILTS PRICES

[illegible]

■ Other Fixed Interest

[illegible]

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for November 1996: 153.9 and for June 1997: 157.5.

■ "Tap" stock. £ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis. ⊕ Indicative price.

Wizard Finance Limited
US$ 525,000,000
Asset Backed Floating Rate Notes due 2000

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from July 10, 1997 to January 12, 1998 the Notes will carry an Interest Rate of 6.02375% per annum.
The Coupon Amount payable on the relevant Interest Payment Date, January 12, 1998 will be US$ 311 per US$ 10,000 principal amount of Note.

The Principal Paying Agent
Kredietbank Luxembourg

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INSURANCE - Cont.

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Cont.

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TEXTILES & APPAREL - Cont.

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

	Notes	Price	W'k% ch'ge	Div gross	Dividends paid	Last xd	City line
[illegible]							
Toronto-Dom C$		18⅛	0.2	$1.12e	JaApJyOc	18.12	1207
Trans Can Pipe C$	♥	11⅞	-1.4	$1.16	JaApJyOc	28.6	–
Western Star Trucks C$		17⅞	1.5	–	–	–	–

SOUTH AFRICANS

	Notes	Price	W'k% ch'ge	Div net	Div cov	Dividends paid	Last xd	City line
Anglo Am Ind R	†	228¼	5.6	0945c	ф	May Oct	2.8	–
Barlow	†	55¼	-2.8	0108c	3.3	Jan Jul	9.12	–
Gold Flds Prop R	†	188½	-2.4	080c	1.5	Feb Sep	2.96	–
SA Brews		218¼	-1.6	0287c	ф	Jul Feb	2.6	4113
Standard Bank		527½	-4.5	0407c	ф	Sep Mar	3.3	–
Tiger Oats	†	1002xd	-5.7	0135c	2.9	Jan Jul	9.6	–
Tongaat-Hulett		720½xd	-4	0142c	ф	Jan Jul	17.6	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1997. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: **Additions: Versalite (BdMa), Randgold Res (Extl), Norwich Union (LIAs), Aston Villa (LeH), Powderject (Phrm), Bakery Services, Highland Timber (AIM). Deletions: Randex (Extl). Omnicare (AIM).**

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To order, call 0121 200 4878.
Reports published by ShareFinder.

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The share prices printed on these pages are also available on the Internet at http://www.FT.com.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

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Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 50p per minute at all times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

BAII Asset Management Ltd

Bank Von Ernst & Cie AG

GT Global

Morgan Stanley Slavy - Contd.

ACM Offshore Funds - Contd.

Credit Investment Funds - Contd.

Merrill Lynch Asset Management - Contd.

TCW Luxembourg Funds

Target International Ltd

Templeton Emerging Asia

Eurolife Assurance Group

Finance International Ltd

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

[illegible]

[illegible]

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 11 / Sch)

BELGIUM/LUXEMBOURG (Jul 11 / Frs.)

CZECH REP (Jul 11 / Koruna)

DENMARK (Jul 11 / Kr)

FINLAND (Jul 11 / Mkk)

FRANCE (Jul 11 / Frs.)

GERMANY (Jul 11 / Dm.)

GREECE (Jul 11 / Drachma)

ITALY (Jul 11 / Lira)

NETHERLANDS (Jul 11 / Fls.)

NORWAY (Jul 11 / Kroner)

POLAND (Jul 11 / Zloty)

PORTUGAL (Jul 11 / Escudo)

SPAIN (Jul 11 / Pta.)

SWEDEN (Jul 11 / Kronor)

SWITZERLAND (Jul 11 / Frs.)

TURKEY (Jul 11 / TL Lira)

PACIFIC

JAPAN (Jul 11 / Yen)

AUSTRALIA (Jul 11 / Aus$)

HONG KONG (Jul 11 / H.K.$)

INDONESIA (Jul 11 / Rupiah)

MALAYSIA (Jul 11 / MYR)

NEW ZEALAND (Jul 11 / NZ $)

SINGAPORE (Jul 11 / S$)

SOUTH KOREA (Jul 11 / Won)

TAIWAN (Jul 11 / TW $)

THAILAND (Jul 11 / Baht)

NORTH AMERICA

CANADA

TORONTO (Jul 11 / Can $)

4 pm close

MONTREAL (Jul 11 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (Jul 11 / Rand)

INDICES

INDEX FUTURES

CAC-40 (MATIF/SICOVAM)

DAX

OMX

SOFFEX

US INDICES

Dow Jones	Jul 11	Jul 10	Jul 9	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7921.82	7886.70	7842.43	7962.31 (8/7)	6391.69 (11/4)	7962.31 (8/7/97)	41.22 (8/7/32)
Home Bonds	103.99	104.08	103.83	104.08 (10/7)	101.88 (14/4)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2819.31	2812.21	2811.88	2821.82 (8/7)	2222.07 (2/1)	2821.82 (8/7/97)	13.23 (8/7/32)
Utilities	231.85	232.10	228.81	240.85 (22/1)	209.47 (25/4)	256.46 (31/5/93)	16.53 (8/7/32)

DJ Ind. Day's high 7984.02 (7953.94) Low 7857.89 (7777.06) (Theoretical) Day's high 7955.29 (7913.22) Low 7887.21 (7809.88) (Actual)

Standard and Poors	Jul 11	Jul 10	Jul 9	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	916.88	913.78	907.54	918.75 (8/7)	737.01 (2/1)	918.75 (8/7/97)	4.40 (1/6/32)
Industrials¶	1078.81	1078.19	1068.08	1081.84 (8/7)	865.42 (11/4)	1081.84 (8/7/97)	3.52 (30/6/32)
Financial	104.21	103.90	103.05	106.75 (8/7)	80.75 (2/1)	106.75 (8/7/97)	7.13 (4/9/74)
NYSE Comp.	478.12	476.27	473.08	478.49 (8/7)	389.47 (11/4)	478.48 (8/7/97)	4.64 (25/4/42)
Amex Comp.	635.47	631.70	631.02	635.47 (11/7)	541.20 (28/4)	635.47 (11/7/97)	524.20 (16/7/96)
NASDAQ Cmp	1502.82	1490.93	1486.63	1502.82 (11/7)	1201.00 (2/4)	1502.82 (11/7/97)	54.87 (3/10/74)

RATIOS

	Jul 3	Jun 27	Jun 20	Year ago
Dow Jones Ind. Div. Yield	1.63	1.67	1.65	2.22
	Jul 9	Jul 2	Jun 25	Year ago
S & P Ind. Div. yield	1.55	1.58	1.62	2.03
S & P Ind. P/E ratio	24.91	24.75	24.35	21.87

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Fannie Mae	7,343,800	42⅝	-1⅜
Micron Tech	7,012,100	44⅝	+2¼
Crown Crk	5,662,800	49⅝	-6¼
AT&T	5,434,500	35¾	-½
Reading Bts	5,139,100	33¼	+3½
Compaq	4,998,900	124	+3⅝
Pepsico	4,947,100	37⅝	-1⅝
Hewlett-Pk	4,756,800	61⅛	+2⅝
Ph. Morris	4,240,100	43¼	-⅛
Chrysler	4,042,400	35⅝	+⅝

TRADING ACTIVITY

Volume (million)

	Jul 11	Jul 10	Jul 9
New York SE	603.726	551.274	577.634
Amex	23.188	21.834	29.345
NASDAQ	(a)	645.320	717.615
NYSE			
Issues Traded	3,412	3,330	3,418
Rises	1,730	1,774	1,143
Falls	1,076	1,045	1,719
Unchanged	606	561	554
New Highs	411	304	377
New Lows	16	16	23

S&P 500

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Sep	921.50	924.40	+2.90	928.30	918.80	84,223	178,191
Dec	-	934.30	+3.10	937.50	930.60	364	5,267

Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Sep	19820.0	19840.0	+60.0	19880.0	19650.0	21,926	166,740

Open interest figures for previous day.

§ FT Free Annual Reports Service

TOKYO - MOST ACTIVE STOCKS: Friday, July 11, 1997

	Stocks Traded	Closing Prices	Change on day
Aoki Corp	24.0m	84	-16
Fujitsu	8.6m	1630	+20
Yaohan Japan Cp	7.0m	95	-48
Isuzu Motors	5.9m	421	-14
Nippon Steel Cp	4.2m	354	-4
Sakura Bank	4.0m	775	-4
NEC Corp	3.7m	1620	+30
Sanyo Secs	3.7m	163	-31
NKK Corp	3.6m	223	-2
Sumitomo Mtl Ind	3.5m	305	-3

NEW YORK STOCK EXCHANGE PRICES

4 pm close July 11

1997 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A -								
34⅞	24⅛	AAR	0.48	1.4	27	689	u35¼	34⅞	35¼	+11/16
48½	33⅛	AMP	1.04	2.3	37	4347	u46⅝	45½	46⅛	+⅝
103¼	78¼	AMR			7	4180	94⅞	92½	92⅝	-1⅛
37⅝	29½	ASA	1.20	4.8	20	445	30⅞	29⅞	30⅝	+7/16
66⅞	49⅜	AbbotL x	1.08	1.7	25	16303	65½	63½	64⅞	-1⅞
16⅞	14⅞	Abitibi Pr	0.40	2.3	0	10	17⅜	17⅜	17¾	
20⅞	17⅛	ABM Ind x	0.40	1.8	19	202	u21⅞	20⅞	21⅞	+¼
23⅞	17⅝	Acpinsola			12	120	23¼	23⅞	23⅞	-3/16
77⅞	56¼	ACE Ltd x	0.80	1.1	12	900	77	76⅜	76¾	+½
10⅞	10	ACM Gvt In x	0.80	8.6	11	118	10½	10 7/16	10½	
7⅞	1	ACM GvOpp x	0.63	8.1		129	7⅞	7¾	7¾	-1/16
9⅞	9¼	ACM Man x	0.80	9.1		148	u9⅞	9⅞	9⅞	+1/16
10⅜	6¾	Acme Elect				114	6½	6⅜	6⅝	-1/16
20	13	Acme Mills				24	17¼	17	17¼	+1/16
20⅞	14	ACNielsen			37	3531	u20⅞	20⅞	20¾	+⅜
40⅛	27⅛	Acordia	0.80	2.0	19	20	39⅞	39⅞	39⅞	
29¾	21⅛	Acuson				1709	21¾	21 5/16	21⅜	-⅛
24	19⅜	Adams Expr	0.55	2.3	1	387	29⅝	23 7/16	23½	-1/16
48½	24⅞	AdvMic				8641	38⅝	37⅝	37⅞	-⅛
27½	10⅜	AdvestGrp x	0.12	0.5	16	170	22¼	21⅝	22⅛	+¼
18⅞	11⅛	Advo Inc			29	213	u18⅞	18⅝	18⅞	-⅛
78⅝	61⅛	Aegon$	1.31	1.7	21	2191	78½	78	78⅜	+1⅞
5⅞	3⅛	Aerfix				154	4½	4⅜	4 7/16	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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NYSE PRICES

4 pm close July 11

Continued from previous page

12 11/16	10 3/4 Zweig Fd	x 1.20	9.8	482	12 1/4	12 1/8	12 1/4 +1/8
9 1/16	8 Zweig Tot	x 0.84	9.3	347	9	8 15/16	9

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. ds-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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NASDAQ NATIONAL MARKET

4 pm close July 11

AMEX PRICES

4 pm close July 11

EASDAQ

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Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$3.125		3000	8.25	3	Lernout & Hauspie	US$28.75	+0.375	6	29.375	25
Artwork Systems	US$9.5	-0.125	16950	11.125	9.5	Mercer Int'l	US$8.875		9	11.75	8.125
Chemunex	FFr15	+0.5	44700	16	14	NTL	US$23.75	-0.375	9	25.125	23.75
Dr Solomon's ADS	US$28.5		2000	21.75	16.875	PixTech	US$3.875		0	6.125	3.875
Esprit Telecom ADS	US$8.375	+0.125	9	12.25	5.375	Schoeller-Bleckmann	Sch954	-32	10400	1020	900
Innogenetics	US$11.125	-0.125	15147	12.75	10.375	Topcall Int'l	Sch3173		56100	3138	3065

Prices for 11/7/97. Please note that mid prices are now used to calculate highs and lows.
Information about EASDAQ can be found on the Web site at HTTP://WWW.EASDAQ.be
EASDAQ offices are located in Brussels (Tel 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990)

FT GUIDE TO THE WEEK

MONDAY 14

New Indian president

An electoral college of India's two houses of parliament and state assemblies is expected to return Mr KR Narayanan as India's 11th post-independence president, replacing Mr Shankar Dayal Sharma, whose five-year term ends this year. Educated at the London School of Economics, Mr Narayanan will become the first *dalit* – or member of the caste once known as "untouchables" – to accede to the office. Mr Narayanan, a former journalist and diplomat, emerged last month as the consensus candidate of India's main political parties. Also running are Mr TN Seshan, the former election commissioner, and Mrs Sumitra Gandhi Kulkarni, grand-daughter of Mahatma Gandhi.

Final curtain call

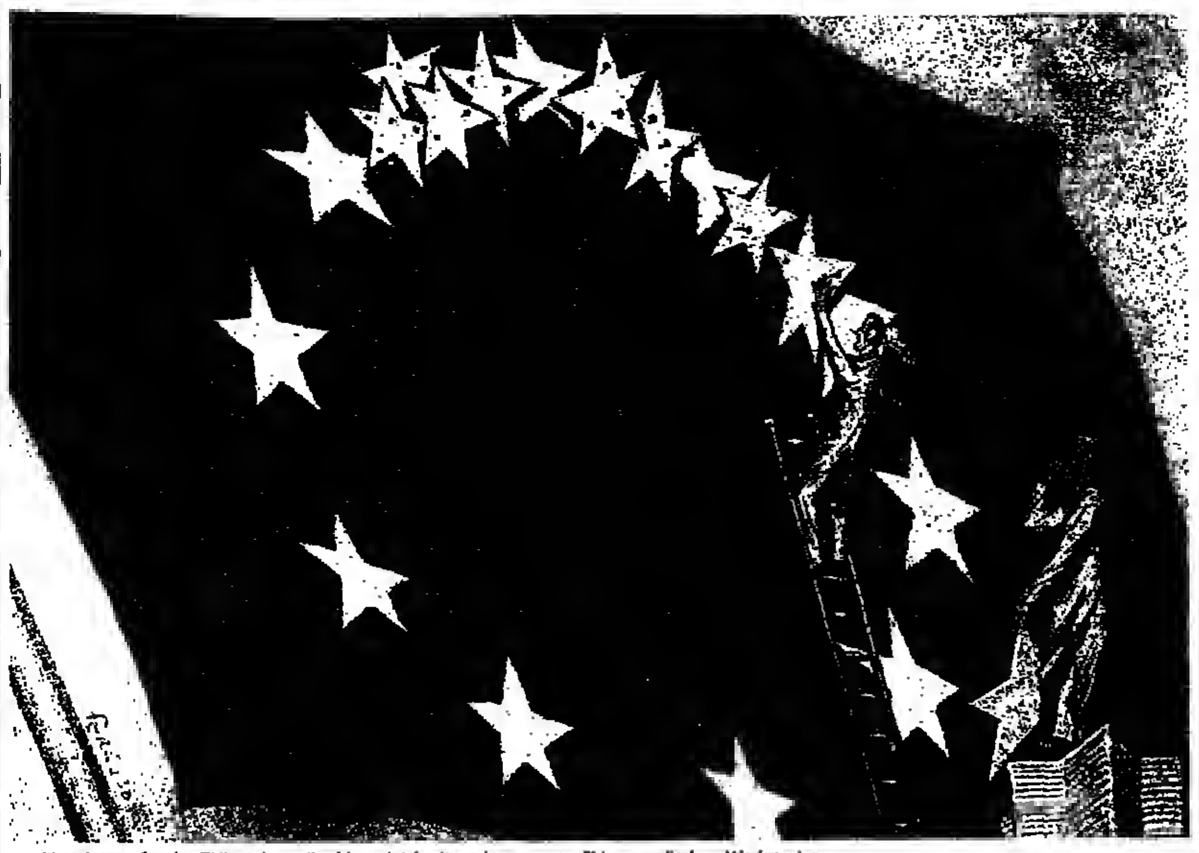
The Royal Opera House Covent Garden holds a grand gala tonight, a last performance before it closes for more than two years for refurbishment. The programme remains a secret but among the stars saying goodbye to the old house will undoubtedly be Placido Domingo and Darcey Bussell. It is hoped the house will reopen in December 1999 with a production of *Falstaff*. The auditorium will change little but backstage facilities will be modernised, and there will be extra rehearsal rooms and a new small stage alongside the old building. The project costs about £210m ($355m), with the national lottery providing £78m.

Cook visits Moscow

Mr Robin Cook, UK foreign secretary, travels to Moscow on Sunday night, for a two-day visit to the Russian Federation. His schedule includes meetings with Mr Yevgeny Primakov, foreign minister, and Mr Yuri Luzhkov, mayor of Moscow, as well as commercial representatives from the British ex-pat community. Although billed as an opportunity to finalise a bilateral agreement on curbing crime and drug abuse, the trip will inevitably be overshadowed by Nato's expansion.

Polish-German talks

Polish president Aleksander Kwasniewski goes to Bonn to meet Chancellor Helmut Kohl. The aim is to underscore German support for Polish membership of the European Union just two days before Brussels is due to publish its view of Poland's state of preparedness for EU membership. The visit is Mr Kwasniewski's first foreign trip after Poland's invitation to start talks on Nato membership. German support is crucial in these negotiations. Later in the week he goes to Slovakia which Poland wants put on Nato's waiting list.



Additional stars for the EU's galaxy: the blueprint for its enlargement will be unveiled on Wednesday.

Financial services move

Improved offers for the World Trade Organisation talks on liberalising international banking, insurance and securities services are expected to be submitted in Geneva this week. The Quad Group of the US, EU, Japan and Canada has pledged to submit improved offers by July 14. The financial services negotiations nearly collapsed in 1995 when the US refused to join a multilateral deal, now in force on an interim basis.

Do Muoi visits China

Do Muoi, the Vietnamese Communist party chief, starts an official visit to Beijing to promote bilateral relations. Do Muoi's visit follows a recent dispute between Beijing and Hanoi over the presence of a Chinese oil rig in contested waters of the South China Sea. The rig, owned by China's National Offshore Oil, was moved into an area roughly midway between the coast of central Vietnam and China's Hainan Island in March. The move triggered centuries-old rivalries between the two neighbours and the rig was later withdrawn. Subsequent talks in Beijing in April failed to find common ground.

Peru zinc mine sale

Unusually buoyant international prices for zinc could mean higher than expected offers at today's mining privatisation in Peru. Mahr Tunel, two polymetallic mines each with a concentrator plant, has a minimum price of US$50m. Keen interest from Swiss, Australian and North American bidders should make this a successful sell-off for Centromin, the state-owned mining and refining group.

TUESDAY 15

Sailing tall

The first leg of the Cutty Sark Tall Ships' Races – from Aberdeen, Scotland, to Trondheim, Norway – starts today. More large square-rigged tall ships have entered this year's races than any year since the event started in 1956. Some 90 craft have registered. Around 16 countries will be represented and at least 15 of the ships taking part were built before the first world war, six of those in the 19th century. The oldest competitor is the Norwegian ketch Anna Kristina, launched in 1889. From Trondheim the ships sail to Stavanger, Norway, and then to Gothenburg in Sweden, arriving August 14.

Berlin visit

Spanish King Juan Carlos and Queen Sophia arrive in Berlin for the start of a state visit to Germany. In Berlin the king will meet President Roman Herzog before going to Bonn to see Chancellor Helmut Kohl. A visit to Frankfurt is also planned.

Islamic capital

A two-day conference on the international Islamic capital market opens in Kuala Lumpur. It will be inaugurated by Mr Anwar Ibrahim, Malaysia's acting prime minister, who is also the country's finance minister. The conference will discuss measures to boost capital market development in Muslim countries.

FT Survey

Japan

WEDNESDAY 16

EU sets Agenda 2000

Mr Jacques Santer, president of the European Commission, unveils a long-awaited blueprint for managing the EU's enlargement, involving the former communist countries of central and eastern Europe, known as Agenda 2000. The blueprint contains far-reaching proposals for reforming the Common Agricultural Policy, the regional aid budget, as well as opinions on the merits of the 10 applicant countries. The Commission will recommend that Estonia and Slovenia should join Cyprus, the Czech Republic, Hungary, and Poland in the first wave of accession negotiations early next year. Bulgaria, Romania, Slovakia, Latvia and Lithuania will follow. However, EU leaders have the last word on Agenda 2000 and may seek revisions.

UN reform plan

A long-awaited plan to reform and streamline the United Nations to make it both more efficient and more effective will be unveiled by Mr Kofi Annan, the secretary general. The US has insisted on sweeping changes as a condition for the payment of its hefty arrears, but the final decision rests with the general assembly, where developing world members form a majority. The assembly will debate the issue during its session opening in September.

New Frontier's future

The New Frontier party, or *Shinshinto*, Japan's largest opposition party, is holding a meeting of its members of parliament. The party has recently suffered a series of defections – including Morihiro Hosokawa, the former prime minister – and performed badly in Tokyo metropolitan elections this month. Members will be discussing the party's future, and in particular whether it should try to move closer to the ruling Liberal Democratic party. The high-handed attitude of Ichiro Ozawa, the NFP leader, has been blamed for most of the defections, several more of which are expected this week.

Chirac in Belgium

French president Jacques Chirac pays an official two-day visit to Belgium, where he will hold talks with Mr Jean-Luc Dehaene, prime minister, and have dinner with King Albert at the royal chateau at Laeken. On Thursday, Mr Chirac will drop in for lunch at the European Commission, where he is certain to discuss prospects for economic and monetary union.

THURSDAY 17

Red-letter day

A series of 17 letters written by Winston Churchill to his brother Jack during the first world war are expected to make up to £100,000 in a Sotheby's English literature and history sale in London today. They include Churchill's thoughts on the Dardanelles campaign, which he championed. Also in the auction is the original manuscript of the message Field Marshal Montgomery sent to the Eighth Army just before the Battle of El Alamein in 1942. It should make more than £30,000.

Prize writers

Winners of two of Japan's most prestigious literary awards will be announced today. The biannual Akutagawa Prize for literature, which is usually awarded to relatively unknown authors, will be announced along with the Naoki Prize for fiction, for more established authors. The Akutagawa award was founded in 1935 in memory of the novelist Ryunosuke Akutagawa. Some recent awards have been controversial: the last winner was Miri Yu, a young Korean-born novelist, whose novel, *Family Cinema*, dealt with the experiences of a Korean family in Japan. Yu's planned book-signings had to be cancelled after threats from rightwing groups. This year's nominations include *Budo* (Grapes) by Ayuko Sato, and *Saigon Pickup*, by Sbu Fujisawa.

Naval exercises

Japan's Maritime Self-Defence Force and the US Navy begin a 12-day programme of joint exercises off Aomori prefecture in northern Japan. Strengthening Japan's defence role and links with the US are hot political issues in Japan. The ruling Liberal Democratic party has backed proposed legislation that would guarantee Japanese co-operation with the US in any emergencies in areas surrounding Japan. Other political parties say this is against Japan's peace constitution.

FT Survey

Private Finance Initiative

Golf

The Open (to July 20) at Troon, Scotland

FRIDAY 18

Albanian withdrawal

Italy's nearly 4,000-strong peacekeeping force in Albania is due to begin pulling out today in the wake of that country's elections. Italian troops were deployed in April to lead a multinational force of 7,000 soldiers with the task of helping restore order in the country.

WEEKEND 19-20

Vietnam vote

Vietnam will hold a nationwide poll on Sunday to choose a new National Assembly – or parliament – that will confirm top-level leadership changes and a new government team later this year. The election is a step towards resolving an 18-month leadership crisis that has stalled the communist-ruled country's economic reforms and dampened foreign investor sentiment. The ageing president and prime minister are not standing for re-election. Diplomats say they may be replaced by younger blood when the assembly meets around September, giving fresh impetus to reform.

Liberian elections

Having failed to seize power by force, warlord Charles Taylor hopes to do so via the ballot box on Saturday when the West African state of Liberia stages elections intended to bring the curtain down on seven years of civil war. Twelve out of the 13 parties contesting the polls have asked for it to be delayed, citing alleged irregularities during voter registration. But Mr Taylor has warned the electoral commission against postponing the polls. The US is funding the elections to the tune of $7.4m and has trained 500 Liberian police officers.

Compiled by Bob Vincent
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ECONOMIC DIARY

Other economic news

Monday: The IFO confidence index for the German economy in June, due some time this week, is expected to have maintained its upward trend helped by the weak D-Mark and strong growth in manufacturing orders. The markets are looking for an index of 96 after 95.3 in May.

Tuesday: Forecasters expect a strong rebound in US retail sales for June, after monthly declines in April and May, based on early reports from retail stores.

Wednesday: The US consumer price index in June is forecast to have risen by a small amount due to higher housing costs and apparel and tobacco prices. The market consensus is for an annual headline inflation rate of 2.4 per cent, after 2.2 per cent in May.

Thursday: US housing starts in June are likely to have bounced back from the reported declines in May.

Friday: The annualised June growth rate of UK M4, a measure of broad money, is forecast to have edged up to 11.2 per cent, after 11.1 per cent in May. This is outside the Bank of England's monitoring range for M4 of 3 per cent to 9 per cent.

Statistics to be released this week

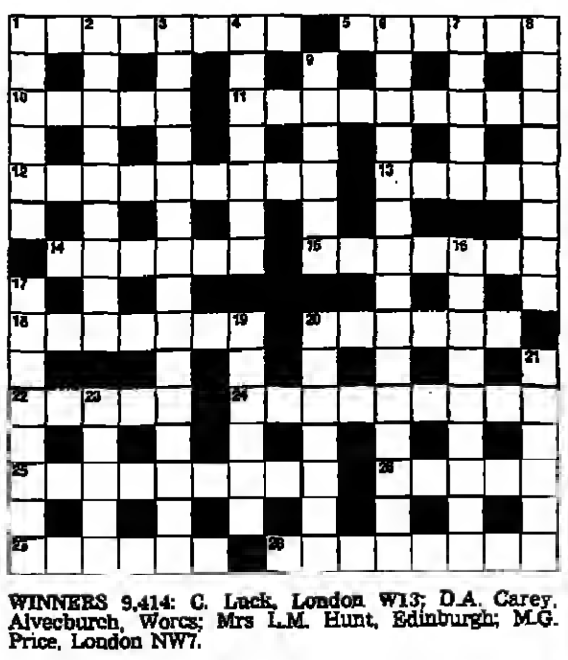
Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	June producer price index input **	-7.9%	-8.8%
July 14	UK	June producer price index output *	0.0%	0.1%
	UK	June producer price index output **	1.1%	1.0%
	US	June Atlanta Federal Index	15.6%	16.2%
Tue	Japan	May industrial production †	3.9%	3.8%
July 15	US	June retail sales	n/a	-0.1%
	Canada	May wage settlement inc **	1.7%	1.8%
	Italy	May producer price index **	1.2%	0.6%
	Italy	May wholesale price index**	-0.3%	-0.7%
Wed	UK	June unemployment	-25K	-16K
July 16	UK	May average earnings	4.5%	4.5%
	UK	June public sector borrowing req	£4.2bn	£4bn
	US	June consumer price index	n/a	0.1%
	Canada	May manufacturing new orders	0.5%	4.9%
	Canada	May manufacturing shipments	0.7%	0.7%
	US	June industrial production	0.4%	0.4%
	US	June real earnings	n/a	0.3%
	Japan	June trade balance / customs cleared	Y950bn	Y731bn
	Japan	June money supply : M2 **	2.8%	3.0%
	Japan	June broad liquidity **	3.5%	3.6%
Thurs	France	Gross domestic product final q/q	0.2%	0.2%
July 17	France	Gross domestic product final **	0.9%	0.9%
	US	June housing starts	1.49m	1.40m
	US	State benefits July 5	n/a	2478k
	Nethlnds	June unemployment q	5.7%	5.8%
	Canada	June consumer price index(all items)*	0.1%	0.1%
	Canada	June consumer price index(all items)**	1.6%	1.5%
	Canada	June CPI excluding food & energy **	1.8%	1.7%
Friday	UK	June M4 *	0.8%	1.3%
July 18	UK	June M4 **	11.2%	11.1%
	UK	June M4 lending (£bn)	5.9bn	9.2bn
	US	May trade: goods and services ($bn)	-$9.6bn	-$8.4bn
	US	May goods and services export ($bn)	$76.5bn	$78.4bn
	US	May goods and services import ($bn)	$86.1bn	$86.7bn
	US	June export price index	n/a	-0.2%
	Canada	May wholesale trade † *	1.1%	3.0%
	Canada	May merchandise exports † *	0.8%	0.3%
	Canada	May merchandise imports † *	-0.4%	4.3%
	Canada	May merchandise trade surplus ($bn)	$2.1bn	$1.7bn
	US	July Michigan sentiment preliminary**	104.1	104.5
	UK	June vehicle production	n/a	n/a
	HongKong	Unemployment (Apr-June)	2.4%	2.5%
During the week...				
	Spain	Unemployment	21.3%	21.4%
	US	Redbook July 12	n/a	1.7%
	Italy	May industrial production † *	0.4%	0.7%
		Sweden June consumer price index*	-0.3%	0.0%
		Sweden June consumer price index **	0.3%	0.3%
		Spain May retail sales **	n/a	5.4%

*month on month, **year on year † seasonally adjusted. *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD
No.9,426 Set by DANTE

ACROSS
1 This sort of order will make a man stoic (8)
5 Climbed like a fish (6)
10 Icing the problem? A rug's possibly the answer (5)
11 Loud clamour that may lead to some apprehension (3,3,3)
12 Turned out awkward without an instructor (9)
13 Wine perhaps? The Spanish red is making a comeback (5)
14 Possibly push to a conclusion (6)
15 Plant daggers in Capone's back (7)
18 A girl about ten, one feels (7)
20 Try and use new business guarantee (6)
22 When indisposed, one gets out of these classes (5)
24 Sudden downfall in Iran? (9)
25 Elitist minority (6,3)
26 Catch a young lady with nothing on (5)
27 Back me to supervise relief work (6)
28 Styes are not pretty sights (8)

DOWN
1 Place of interest it's the custom to be silent going round (6)
2 Strange thing to observe in a club (9)
3 One way to take extensive exercise? (7,4,4)
4 Succeed with a will in their resolve (7)
6 May be seen and heard in a Kentish garden (10,5)
7 Thrashed for having spiked the drink (5)
8 24 hours off from dawn (8)
9 Know a boy raised in Cumbria (6)
16 He has an extended retirement (4,5)
17 Slaughter in the service area (8)
19 How one might be cast as Captain Bligh? (6)
20 A basic requirement for ship-launching (7)
21 Condescends to take work on board (6)
23 Greek character goes to the doctor for a lozenge (5)



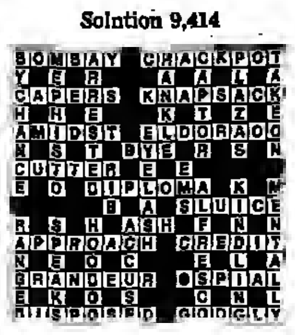
WINNERS 9,414: C. Lack, London W13; D.A. Carey, Alvechurch, Worcs; Mrs L.M. Hunt, Edinburgh; M.G. Price, London NW7.

Six bottles of Davys Celebration Champagne for the first correct solution opened and three runner-up prizes of £40 Davys food and wine vouchers redeemable in person or by post. These prizes are available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a set of silver-plated place name bases and cards. Solutions by Thursday July 24, marked Monday Crossword 9,426 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday July 28. Please allow 28 days for delivery of prizes.

Name..

Address..

Solution 9,414



JOTTER PAD